

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2020

OR

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

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

Commission File Number: 001-37661



(Exact name of registrant as specified in its charter)

Tennessee  
(State or other jurisdiction of  
incorporation or organization)  
5401 Kingston Pike, Suite 600  
Knoxville, Tennessee  
(Address of principal executive offices)

62-1173944  
(I.R.S. Employer  
Identification No.)

37919  
(Zip Code)

(865) 437-5700

(Registrant's telephone number, including area code)

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 per share	SMBK	The Nasdaq Stock Market

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

Common Stock, \$1.00 Par Value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the of the Securities Act.

Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

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 whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an 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 emerging growth company, indicate by check mark 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 June 30, 2020, the aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates was approximately \$224.1 million. As of March 8, 2021, there were 15,113,045 shares outstanding of the registrant's common stock, \$1.00 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 27, 2021, are incorporated by reference in Part III of this Form 10-K.

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## FORWARD-LOOKING STATEMENTS

SmartFinancial, Inc. (“SmartFinancial” or the “Company”) 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 7), 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 effects of COVID-19, 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 the COVID-19 pandemic;
- 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;

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- 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.

For a more detailed discussion of some of the risk factors, see the section entitled "Risk Factors" below. We do not intend to update any factors, except as required by SEC rules, or to publicly announce revisions to any of our forward-looking statements. Any forward-looking statement speaks only as of the date that such statement was made. You should consider any forward looking statements in light of this explanation, and we caution you about relying on forward-looking statements.

## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

SmartFinancial, Inc. (“SmartFinancial” or the “Company”) was incorporated on September 19, 1983, under the laws of the State of Tennessee. SmartFinancial is a bank holding company registered under the Bank Holding Company Act of 1956, as amended.

The primary activity of SmartFinancial is the ownership and operation of SmartBank (the “Bank”). As a bank holding company, SmartFinancial intends to facilitate SmartBank’s ability to serve its customers’ requirements for financial services. The holding company structure also provides flexibility for expansion through the possible acquisition of other financial institutions and the provision of additional banking-related services, as well as certain non-banking services, which a traditional commercial bank may not provide under present laws.

#### *SmartBank*

SmartBank is a Tennessee-chartered commercial bank established in 2007 with its principal office in Pigeon Forge, Tennessee. The principal business of the Bank consists of attracting deposits from the general public and investing those funds, together with funds generated from operations and from principal and interest payments on loans, primarily in commercial loans, commercial and residential real estate loans, consumer loans and residential and commercial construction loans. Funds not invested in the loan portfolio are invested by the Bank primarily in obligations of the U.S. Government, U.S. Government agencies, and various states and their political subdivisions. In addition to deposits, sources of funds for the Bank’s loans and other investments include amortization and prepayment of loans, sales of loans or participations in loans, sales of its investment securities and borrowings from other financial institutions. The principal sources of income for the Bank are interest and fees collected on loans, fees collected on deposit accounts and interest and dividends collected on other investments. The principal expenses of the Bank are interest paid on deposits, employee compensation and benefits, office expenses and other overhead expenses. As of March 1, 2021, SmartBank has 35 full-service branches located in East and Middle Tennessee, Alabama, and the Florida panhandle, one loan production office, and one service center.

#### *Progressive Merger*

On October 29, 2019, the Company along with the Bank entered into an agreement and plan of merger with Progressive Financial Group, Inc. (“PFG”), a Tennessee corporation. The merger was consummated on March 1, 2020, with PFG stockholders receiving stock of the Company. After the merger, original stockholders of SmartFinancial owned approximately 92% of the outstanding common stock of the combined entity on a fully diluted basis while the previous PFG stockholders owned approximately 8%. The assets and liabilities of PFG, as of the effective date of the merger, were recorded at their respective estimated fair values and combined with those of the Company. The excess of the purchase price over the net estimated fair values of the acquired assets and liabilities was allocated to identifiable intangible assets with the remaining excess allocated to goodwill, which was approximately \$8.3 million. As a result of the merger the Company assets increased approximately \$301 million and liabilities increased approximately \$272 million.

#### *Human Capital Resources*

The Bank is committed to building a culture where associates thrive and are empowered to be leaders. Being trustworthy, loyal, and innovative are some of the characteristics exemplified by our associates. Our culture is defined by our core values of **Act with Integrity**, **Be Enthusiastic**, **Create Positivity**, **Demonstrate Accountability** and **Embrace Change**. We foster a work environment that respects individual needs, establishes high expectations, and recognizes achievement. Associates are inspired to be involved in their communities and show great care for clients. We refer to that as creating “WOW” experiences. Our leadership team empowers associates to make decisions and find opportunities to add value. We invest in a healthy work-life balance, competitive compensation and benefit packages and a vibrant, team-oriented environment centered on professional service and open communication among associates. We hold ourselves

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accountable to that by participating in an annual engagement survey to solicit feedback from our associates. The results of the survey mold our initiatives so that we can focus on being a great place to work. In 2017, 2018, 2019 and 2020 we were nominated as a Top Workplace based on the feedback from our associates.

As of December 31, 2020, we employed 464 full-time and 11 part-time associates across our three-state footprint of Tennessee, Alabama, and Florida. None of these associates are represented by a collective bargaining agreement. During the year 2020 we successfully onboarded 101 new associates. Over 68% of the Company's associates are women and 6% are minorities. Among the Company's 227-person banking officers, women make up approximately 51% of these associates, while minorities account for 4% of the banking officer members. Beginning in 2021, a senior leadership team made up of a subset of these Leadership Team members was formed. Presently, the senior leadership team consists of seven associates, two of whom are women.

We provide a competitive compensation and benefits program to help meet the needs of our associates. In addition to salaries, these programs include annual bonuses, stock awards, a 401(k) Plan with an employer matching contribution, healthcare and insurance benefits, health savings, flexible spending accounts, generous paid time off including unlimited paid time off options, tuition reimbursement, financial planning, company paid life insurance, company paid dental insurance, company paid vision insurance, family leave, and an associate assistance program.

We invest in the growth and development of our associates by providing a multi-dimensional approach to learning that empowers, intellectually grows, and professionally develops our colleagues. Our associates receive continuing education courses that are relevant to the banking industry and their job function within the Company. In addition, we have created learning paths for specific positions that are designed to encourage an associate's advancement and growth within our organization. We also offer a peer mentoring program, SmartLeadership and client service training. These resources provide associates with the skills they need to achieve their career goals and become leaders within our Company.

We recognize the social and environmental responsibility that arises from the impact of our activities on peoples' lives and society. To assist with this responsibility, we have adopted a Corporate Ethics policy to address any concerns into our daily business activities and our approach to stakeholder relationships. Through this policy, we strive to carry out our banking activities in a responsible manner, placing the financial needs of our clients and economic health of our communities at the core of our focus.

Throughout the pandemic, the health and safety of our associates, clients, and the communities we serve has been our top priority. We continue to monitor both the local, national, and global impact and update guidelines and practices in accordance with recommendations by the Center for Disease Control and Prevention, local, state, and federal agencies. In response to the pandemic, we quickly implemented extensive safety measures to protect our associates, including heightened sanitary precautions, protective supplies, suspended non-essential business travel, directed associates to work remotely when possible and limited in-person meetings. We also implemented flexible scheduling and additional emergency paid leave options to support associates if they were impacted by the pandemic and unable to work.

### ***Merger and Acquisition Strategy***

Our strategic plan involves growing a high performing community bank through organic loan and deposit growth as well as disciplined merger and acquisition activity. We are continually evaluating business combination opportunities and may conduct due diligence activities in connection with these opportunities. As a result, business combination discussions and, in some cases, negotiations, may take place, and transactions involving cash, debt or equity securities could be expected. Any future business combinations or series of business combinations that we might undertake may be material in terms of assets acquired, liabilities assumed, or equity issued.

### ***Competition***

We compete in a highly competitive banking and financial services industry. Our profitability depends principally on our ability to effectively compete in the markets in which we conduct business. We expect competition in the industry to continue to increase mainly as a result of the improvement in financial technology used by both existing and new banking

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and financial services firms. Competition may further intensify as additional companies enter the markets where we conduct business and we enter mature markets in accordance with our expansion strategy.

We experience strong competition from both bank and non-bank competitors. Broadly speaking, we compete with national banks, super-regional banks, smaller community banks and non-traditional internet-based banks. In addition, we compete with other financial intermediaries and investment alternatives such as mortgage companies, credit card issuers, leasing companies, finance companies, money market mutual funds, brokerage firms, governmental and corporation bond issuers, and other securities firms. Many of these non-bank competitors are not subject to the same regulatory oversight, affording them a competitive advantage in some instances. In many cases, our competitors have substantially greater resources and offer certain services that we are unable to provide to our customers.

We encounter strong pricing competition in providing our services. Additionally, other banks offer different products or services from those that we provide. The larger national and super-regional banks may have significantly greater lending limits and may offer additional products than we are capable of providing. We attempt to compete successfully with our competitors, regardless of their size, through the selection of banking products and services offered, the level of service provided, the convenience and ability of services, and the degree of expertise and the personal manner in which services are offered.

We attempt to compete successfully with our competitors, regardless of their size, by emphasizing customer service while continuing to provide a wide variety of services.

### ***Supervision and Regulation***

We are extensively regulated under federal and state law. The following is a brief summary that does not purport to be a complete description of all regulations that affect us or all aspects of those regulations. This discussion is qualified in its entirety by reference to the particular statutory and regulatory provisions described below and is not intended to be an exhaustive description of the statutes or regulations applicable to the Company's and SmartBank's business. In addition, proposals to change the laws and regulations governing the banking industry are frequently raised at both the state and federal levels. The likelihood and timing of any changes in these laws and regulations, and the impact such changes may have on us and SmartBank, are difficult to predict. In addition, bank regulatory agencies may issue enforcement actions, policy statements, interpretive letters and similar written guidance applicable to us or to SmartBank. Changes in applicable laws, regulations or regulatory guidance, or their interpretation by regulatory agencies or courts may have a material adverse effect on our and SmartBank's business, operations, and earnings.

We, SmartBank, and our nonbank affiliates must undergo regular on-site examinations by the appropriate regulatory agency, which will examine for adherence to a range of legal and regulatory compliance responsibilities. A bank regulator conducting an examination has complete access to the books and records of the examined institution. The results of the examination are confidential. Supervision and regulation of banks, their holding companies and affiliates is intended primarily for the protection of depositors and customers, the DIF of the FDIC, and the U.S. banking and financial system rather than holders of our capital stock.

### ***Regulation of the Company***

We are registered as a bank holding company with the Federal Reserve under the Bank Holding Company Act, as amended ("BHC Act"). As such, we are subject to comprehensive supervision, and regulation by the Federal Reserve and are subject to its regulatory reporting requirements. Federal law subjects bank holding companies, such as the Company, to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Violations of laws and regulations, or other unsafe and unsound practices, may result in regulatory agencies imposing fines or penalties, cease and desist orders, or taking other enforcement actions. Under certain circumstances, these agencies may enforce these remedies directly against officers, directors, employees and other parties participating in the affairs of a bank or bank holding company. Like all bank holding companies, we are regulated extensively under federal and state law. Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, state

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banking regulators, the Federal Reserve, and separately the FDIC as the insurer of bank deposits, have the authority to compel or restrict certain actions on our part if they determine that we have insufficient capital or other resources, or are otherwise operating in a manner that may be deemed to be inconsistent with safe and sound banking practices. Under this authority, our bank regulators can require us or our subsidiaries to enter into informal or formal supervisory agreements, including board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders, pursuant to which we would be required to take identified corrective actions to address cited concerns and to refrain from taking certain actions.

If we become subject to and are unable to comply with the terms of any future regulatory actions or directives, supervisory agreements, or orders, then we could become subject to additional, heightened supervisory actions and orders, possibly including consent orders, prompt corrective action restrictions and/or other regulatory actions, including prohibitions on the payment of dividends on our common stock and preferred stock. If our regulators were to take such additional supervisory actions, then we could, among other things, become subject to significant restrictions on our ability to develop any new business, as well as restrictions on our existing business, and we could be required to raise additional capital, dispose of certain assets and liabilities within a prescribed period of time, or both. The terms of any such supervisory action could have a material negative effect on our business, reputation, operating flexibility, financial condition, and the value of our common stock and preferred stock.

### ***Activity Limitations***

- Bank holding companies are generally restricted to engaging in the business of banking, managing or controlling banks
- and certain other activities determined by the Federal Reserve to be closely related to banking. In addition, the Federal Reserve has the power to order a bank holding company or its subsidiaries to terminate any nonbanking activity or terminate its ownership or control of any nonbank subsidiary, when it has reasonable cause to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that bank holding company.

The BHC Act was substantially amended through the Financial Services Modernization Act of 1999, commonly referred to as the Gramm-Leach Bliley Act, or the GLBA. The GLBA eliminated long-standing barriers to affiliations among banks, securities firms, insurance companies, and other financial services providers. A bank holding company whose subsidiary deposit institutions are “well capitalized” and “well managed” may elect to become a “financial holding company” and thereby engage without prior Federal Reserve approval in certain banking and non-banking activities that are deemed to be financial in nature or incidental to financial activity. These “financial in nature” activities include securities underwriting, dealing, and market making; organizing, sponsoring, and managing mutual funds; insurance underwriting and agency; merchant banking activities; and other activities that the Federal Reserve has determined to be closely related to banking. Generally, no regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve. SmartFinancial has not elected to become a financial holding company.

### ***Source of Strength Obligations***

A bank holding company is required to act as a source of financial and managerial strength to its subsidiary bank. The term “source of financial strength” means the ability of a company, such as us, that directly or indirectly owns or controls an insured depository institution, such as SmartBank, to provide financial assistance to such insured depository institution in the event of financial distress. The appropriate federal banking agency for the depository institution (in the case of SmartBank, this agency is the Federal Reserve) may require reports from us to assess our ability to serve as a source of strength and to enforce compliance with the source of strength requirements by requiring us to provide financial assistance to SmartBank in the event of financial distress. If we were to enter bankruptcy or become subject to the orderly liquidation process established by the Dodd-Frank Act, any commitment by us to a federal bank regulatory agency to maintain the capital of SmartBank would be assumed by the bankruptcy trustee or the FDIC, as appropriate, and entitled to a priority of payment. In addition, the FDIC provides that any insured depository institution generally will be liable for any loss

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incurred by the FDIC in connection with the default of, or any assistance provided by the FDIC to, a commonly controlled insured depository institution. SmartBank is an FDIC-insured depository institution and thus subject to these requirements.

### ***Acquisitions***

The BHC Act permits acquisitions of banks by bank holding companies, such that we and any other bank holding company, whether located in Tennessee or elsewhere, may acquire a bank located in any other state, subject to certain deposit-percentage, age of bank charter requirements, and other restrictions. The BHC Act requires that a bank holding company obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of more than 5% of the voting shares of any additional bank or bank holding company, (ii) taking any action that causes an additional bank or bank holding company to become a subsidiary of the bank holding company, or (iii) merging or consolidating with any other bank holding company. The Federal Reserve may not approve any such transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider: (1) the financial and managerial resources of the companies involved, including pro forma capital ratios; (2) the risk to the stability of the United States banking or financial system; (3) the convenience and needs of the communities to be served, including performance under the CRA; and (4) the effectiveness of the companies in combatting money laundering.

### ***Change in Control***

Federal law restricts the amount of voting stock of a bank holding company or a bank that a person may acquire without the prior approval of banking regulators. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, such as the Company, or before acquiring control of any state member bank, such as SmartBank. Upon receipt of such notice, the Federal Reserve may approve or disapprove the acquisition. The Change in Bank Control Act creates a rebuttable presumption of control if a member or group acquires a certain percentage or more of a bank holding company's or bank's voting stock. As a result, a person or entity generally must provide prior notice to the Federal Reserve before acquiring the power to vote 10% or more of our outstanding common stock. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Investors should be aware of these requirements when acquiring shares of our stock.

### ***Governance and Financial Reporting Obligations***

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board, and NASDAQ. In particular, we are required to include management and independent registered public accounting firm reports on internal controls as part of our Annual Report on Form 10-K in order to comply with Section 404 of the Sarbanes-Oxley Act. We have evaluated our controls, including compliance with the SEC rules on internal controls, and have and expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to comply with these internal control rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the values of our securities.

### ***Corporate Governance***

The Dodd-Frank Act addresses many investor protections, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for Compensation Committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers.

### ***Incentive Compensation***

The Dodd-Frank Act required the banking agencies and the SEC to establish joint rules or guidelines for financial institutions with more than \$1 billion in assets, such as us and SmartBank, which prohibit incentive compensation arrangements that the agencies determine to encourage inappropriate risks by the institution. The banking agencies issued proposed rules in 2011 and previously issued guidance on sound incentive compensation policies. In 2016, the banking agencies also proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2020, these rules have not been implemented by the banking agencies. We have undertaken efforts to ensure that our incentive compensation plans do not encourage inappropriate risks, consistent with three key principles—that incentive compensation arrangements should appropriately balance risk and financial rewards, be compatible with effective controls and risk management, and be supported by strong corporate governance.

### ***Shareholder Say-On-Pay Votes***

The Dodd-Frank Act requires public companies to take shareholders' votes on proposals addressing compensation (known as say-on-pay), the frequency of a say-on-pay vote, and the golden parachutes available to executives in connection with change-in-control transactions. Public companies must give shareholders the opportunity to vote on the compensation at least every three years and the opportunity to vote on frequency at least every six years, indicating whether the say-on-pay vote should be held annually, biennially, or triennially. The say-on-pay, the say-on-parachute and the say-on-frequency votes are explicitly nonbinding and cannot override a decision of our Board of Directors.

### ***Other Regulatory Matters***

We are subject to oversight by the SEC, the PCAOB, NASDAQ and various state securities and insurance regulators. We and our subsidiaries have from time to time received requests for information from regulatory authorities in various states, including state attorneys general, securities regulators and other regulatory authorities, concerning our business practices. Such requests are considered incidental to the normal conduct of business.

### ***Capital Requirements***

SmartBank is required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the Federal Reserve may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks, are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act") signed into law in May 2018 scaled back certain requirements of the Dodd-Frank Act and provided other regulatory relief. Among the provisions of the Economic Growth Act was a requirement that the Federal Reserve raise the asset threshold for those bank holding companies subject to the Federal Reserve's Small Bank Holding Company Policy Statement ("Policy Statement") to \$3 billion. As a result, as of the effective date of that change in 2018, the Company was no longer required to comply with the risk-based capital rules applicable to the Bank as described above. The Federal Reserve may however, require smaller bank holding companies subject to the Policy Statement to maintain certain minimum capital levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

The following is a brief description of the relevant provisions of these capital rules and their potential impact on SmartBank's capital levels.

SmartBank is subject to the following risk-based capital ratios: a CET1 risk-based capital ratio, a Tier 1 risk-based capital ratio, which includes CET1 and additional Tier 1 capital and a total capital ratio, which includes Tier 1 and Tier 2 capital. CET1 is primarily comprised of the sum of common stock instruments and related surplus net of treasury stock and retained

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earnings less certain adjustments and deductions, including with respect to goodwill, intangible assets, mortgage servicing assets and deferred tax assets subject to temporary timing differences. Additional Tier 1 capital is primarily comprised of noncumulative perpetual preferred stock. Tier 2 capital consists of instruments disqualified from Tier 1 capital, including qualifying subordinated debt and a limited amount of loan loss reserves up to a maximum of 1.25% of risk-weighted assets, subject to certain eligibility criteria. The capital rules also define the risk-weights assigned to assets and off-balance sheet items to determine the risk-weighted asset components of the risk-based capital rules, including, for example, certain “high volatility” commercial real estate, past due assets, structured securities and equity holdings.

The leverage capital ratio, which serves as a minimum capital standard, is the ratio of Tier 1 capital to quarterly average assets net of goodwill, certain other intangible assets, and certain required deduction items. The required minimum leverage ratio for all banks and bank holding companies (unless exempt) is 4%.

In addition, effective January 1, 2019, the capital rules required a capital conservation buffer of CET1 of 2.5% above each of the minimum capital ratio requirements (CET1, Tier 1, and total risk-based capital), which is designed to absorb losses during periods of economic stress. These buffer requirements must be met for a bank or bank holding company to be able to pay dividends, engage in share buybacks or make discretionary bonus payments to executive management without restriction.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Company’s or SmartBank’s ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications or other restrictions on its growth.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires the federal bank regulatory agencies to take “prompt corrective action” regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five regulatory capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. The FDICIA imposes progressively more restrictive restraints on operations, management and capital distributions, depending on the category in which an institution is classified. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions may not accept brokered deposits absent a waiver from the FDIC, are subject to growth limitations and are required to submit capital restoration plans for regulatory approval. A depository institution’s holding company must guarantee any required capital restoration plan, up to an amount equal to the lesser of 5% of the depository institution’s assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. Federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions.

To be well-capitalized, SmartBank must maintain at least the following capital ratios:

- 6.5% CET1 to risk-weighted assets;
- 8.0% Tier 1 capital to risk-weighted assets;
- 10.0% Total capital to risk-weighted assets; and
- 5.0% leverage ratio.

The Federal Reserve has not yet revised the well-capitalized standard for bank holding companies to reflect the higher capital requirements imposed under the current capital rules applicable to banks. For purposes of the Federal Reserve’s Regulation Y, bank holding companies, such as the Company, must maintain a Tier 1 risk-based capital ratio of 6.0% or

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greater and a total risk-based capital ratio of 10.0% or greater to be well-capitalized. If the Federal Reserve were to apply the same or a very similar well-capitalized standard to bank holding companies as that applicable to SmartBank, the Company's capital ratios as of December 31, 2020 would exceed such revised well-capitalized standard. Also, the Federal Reserve may require bank holding companies, including the Company, to maintain capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

On October 29, 2019, the federal banking agencies issued a final rule to simplify the regulatory capital requirements for eligible banks and holding companies with less than \$10 billion in consolidated assets that opt into the Community Bank Leverage Ratio ("CBLR") framework, as required by Section 201 of the Economic Growth, Relief and Consumer Protection Act (the "Regulatory Relief Act"). A qualifying community banking organization that exceeds the CBLR threshold would be exempt from the agencies' current capital framework, including the risk-based capital requirements and capital conservation buffer described above, and would be deemed well-capitalized under the agencies' prompt corrective action regulations. The Regulatory Relief Act defines a "qualifying community banking organization" as a depository institution or depository institution holding company with total consolidated assets of less than \$10 billion. Under the final rule, if a qualifying community banking organization elects to use the CBLR framework, it will be considered "well-capitalized" so long as its CBLR is greater than 9%. The CBLR framework will first be available for banking organizations, such as the Bank, to use in its March 31, 2020 regulatory reports. The Bank has chosen not to opt into the CBLR at this time.

In 2020, SmartBank's regulatory capital ratios were above the applicable well-capitalized standards and met the then-applicable capital conservation buffer. Based on current estimates, we believe that SmartBank will continue to exceed all applicable well-capitalized regulatory capital requirements and the capital conservation buffer in 2021. For more information regarding our capital, leverage and total capital ratios, see "Part I - Item 1. Consolidated Financial Statements - Note 15 - Regulatory Matters."

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of the CECL accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL; and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. In June 2016, the FASB issued ASU 2016-13, which introduced CECL as the methodology to replace the current "incurred loss" methodology for financial assets measured at amortized cost, and changed the approaches for recognizing and recording credit losses on available-for-sale debt securities and purchased credit impaired financial assets. Under the incurred loss methodology, credit losses are recognized only when the losses are probable or have been incurred; under CECL, companies are required to recognize the full amount of expected credit losses for the lifetime of the financial assets, based on historical experience, current conditions and reasonable and supportable forecasts. This change will result in earlier recognition of credit losses that the Company deems expected but not yet probable. 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 an 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. For additional information relating to CECL, Note 1—Summary of Significant Accounting Policies to our audited consolidated financial statements.

### ***Payment of Dividends***

We are a legal entity separate and distinct from SmartBank and our other subsidiaries. The primary sources of funds for our payment of dividends to our shareholders are cash on hand and dividends from SmartBank. Various federal and state statutory provisions and regulations limit the amount of dividends that SmartBank may pay.

Pursuant to Tennessee banking law, the Bank may not, without the prior consent of the Commissioner of the Tennessee Department of Financial Institutions (the “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. Because this test involves a measure of net income, any charge on the Bank’s income statement, such as an impairment of goodwill, could impair the Bank’s ability to pay dividends to the Company. 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.

In addition, we and SmartBank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal bank regulatory authority may prohibit the payment of dividends where it has determined that the payment of dividends would be an unsafe or unsound practice. The Federal Reserve has indicated that paying dividends that deplete a bank’s capital base to an inadequate level would be an unsound and unsafe banking practice. The Federal Reserve has indicated that depository institutions and their holding companies should generally pay dividends only out of current operating earnings.

Under a Federal Reserve policy adopted in 2009, the board of directors of a bank holding company must consider different factors to ensure that its dividend level is prudent relative to maintaining a strong financial position, and is not based on overly optimistic earnings scenarios, such as potential events that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company’s dividends if:

- its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or
- it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

### ***Regulation of the Bank***

SmartBank, which is a member of the Federal Reserve System, is subject to comprehensive supervision and regulation by the Federal Reserve, and is subject to its regulatory reporting requirements, as well as supervision and regulation by the Tennessee Department of Financial Institutions (“TDFI”). As a member bank of the Federal Reserve System, SmartBank is required to hold stock in its district Federal Reserve Bank in an amount equal to 6% of its capital stock and surplus (half paid to acquire stock with the remainder held as a cash reserve). Member banks do not have any control over the Federal Reserve System as a result of owning the stock and the stock cannot be sold or traded.

The deposits of SmartBank are insured by the FDIC up to applicable limits, and, accordingly, SmartBank is also subject to certain FDIC regulations and the FDIC has backup examination authority and some enforcement powers over SmartBank.

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Tennessee law contains limitations on the interest rates that may be charged on various types of loans and restrictions on the nature and amount of loans that may be granted and on the type of investments which may be made by Tennessee-chartered banks. Tennessee-chartered banks are also subject to regulation by the TDFI with regard to capital requirements and the payment of dividends.

In addition, as discussed in more detail below, SmartBank and any other of our subsidiaries that offer consumer financial products and services are subject to regulation and potential supervision by the CFPB. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce certain federal consumer financial protection law.

Broadly, regulations applicable to SmartBank include limitations on loans to a single borrower and to its directors, officers and employees; restrictions on the opening and closing of branch offices; the maintenance of required capital ratios; the granting of credit under equal and fair conditions; the disclosure of the costs and terms of such credit; requirements to maintain reserves against deposits and loans; limitations on the types of investment that may be made by SmartBank; requirements governing risk management practices; restrictions on the ability of institutions to guarantee its debt; and certain specific accounting requirements on SmartFinancial that may be more restrictive and may result in greater or earlier charges to earnings or reductions in its capital than generally accepted accounting principles.

### ***Transactions with Affiliates and Insiders***

SmartBank is subject to restrictions on extensions of credit and certain other transactions between SmartBank and the Company or any nonbank affiliate. Generally, these covered transactions with either the Company or any affiliate are limited to 10% of SmartBank's capital and surplus, and all such transactions between SmartBank and the Company and all of its nonbank affiliates combined are limited to 20% of SmartBank's capital and surplus. Loans and other extensions of credit from SmartBank to the Company or any affiliate generally are required to be secured by eligible collateral in specified amounts. In addition, any transaction between SmartBank and the Company or any affiliate are required to be on an arm's length basis.

Federal banking laws also place similar restrictions on certain extensions of credit by insured banks, such as SmartBank, to their directors, executive officers and principal shareholders. Tennessee has adopted the provisions of the Federal Reserve's Regulation O with respect to restrictions on loans and other extensions of credit to bank "insiders." Further, under Tennessee law, state banks are prohibited from lending to any one person, firm, or corporation amounts more than 15% of the bank's equity capital accounts, except, (i) in the case of certain loans secured by negotiable title documents covering readily marketable nonperishable staples or (ii) with the prior approval of the bank's board of directors or finance committee (however titled), the bank may make a loan to any person, firm, or corporation of up to 25% of its equity capital accounts.

### ***Reserves***

Federal Reserve rules require depository institutions, such as SmartBank, to maintain reserves against their transaction accounts, primarily NOW and regular checking accounts. Effective March 26, 2020, the Federal Reserve eliminated reserve requirements for all depository institutions. These reserve requirements are subject to annual adjustment by the Federal Reserve.

### ***FDIC Insurance Assessments and Depositor Preference***

SmartBank's deposits are insured by the FDIC's DIF up to the limits under applicable law, which currently are set at \$250,000 per depositor, per insured bank, for each account ownership category. SmartBank is subject to FDIC assessments for its deposit insurance. The FDIC calculates quarterly deposit insurance assessments based on an institution's average total consolidated assets less its average tangible equity, and applies one of four risk categories determined by reference to its capital levels, supervisory ratings, and certain other factors. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits.

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Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by a bank's federal regulatory agency. In addition, the Federal Deposit Insurance Act provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution, including those of the parent bank holding company.

### ***Standards for Safety and Soundness***

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (1) internal controls; (2) information systems and audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate risk exposure; and (6) asset quality. The federal banking agencies have adopted regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if a regulator determines that a bank fails to meet any standards prescribed by the guidelines, the regulator may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

### ***Anti-Money Laundering***

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. The USA PATRIOT Act, and its implementing regulations adopted by the FinCEN, a bureau of the U.S. Department of the Treasury, requires financial institutions to establish anti-money laundering programs with minimum standards that include:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program;
- an independent audit function to test the programs; and
- identify and verify the identity of beneficial owners of legal entity customers.

Banking regulators will consider compliance with the Act's money laundering provisions in acting upon acquisition and merger proposals. Bank regulators routinely examine institutions for compliance with these obligations and have been active in imposing cease and desist and other regulatory orders and money penalty sanctions against institutions found to be violating these obligations. Sanctions for violations of the Act can be imposed in an amount equal to twice the sum involved in the violating transaction, up to \$1 million.

### ***Economic Sanctions***

The OFAC is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons List. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must undertake certain specified activities, which could include blocking or freezing the account or transaction requested, and we must notify the appropriate authorities.

### ***Concentrations in Lending***

During 2006, the federal bank regulatory agencies released guidance on "Concentrations in Commercial Real Estate Lending" (the "Guidance") and advised financial institutions of the risks posed by CRE lending concentrations. The

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Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. Higher allowances for loan losses and capital levels may also be required. The Guidance is triggered when CRE loan concentrations exceed either:

- Total reported loans for construction, land development, and other land of 100% or more of a bank's total risk-based capital; or
- Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land of 300% or more of a bank's total risk-based capital.

The Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type. We have always had exposures to loans secured by CRE due to the nature of our markets and the loan needs of both retail and commercial customers. We believe our long term experience in CRE lending, underwriting policies, internal controls, and other policies currently in place, as well as our loan and credit monitoring and administration procedures, are generally appropriate to managing our concentrations as required under the Guidance

### ***Community Reinvestment Act***

SmartBank is subject to the provisions of the CRA, which imposes a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs of entire communities where the bank accepts deposits, including low- and moderate-income neighborhoods. The Federal Reserve's assessment of SmartBank's CRA record is made available to the public. Further, a less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities and prevent a company from becoming or remaining a financial holding company. Following the enactment of the Gramm-Leach-Bliley Act ("GLB"), CRA agreements with private parties must be disclosed and annual CRA reports must be made to a bank's primary federal regulator. A bank holding company will not be permitted to become or remain a financial holding company and no new activities authorized under GLB may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a "satisfactory" CRA rating in its latest CRA examination. Federal CRA regulations require, among other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation. SmartBank has a rating of "Satisfactory" in its most recent CRA evaluation.

### ***Privacy, Credit Reporting, and Data Security***

The GLB generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to customers annually. Financial institutions, however, will be required to comply with state law if it is more protective of consumer privacy than the GLB. The GLB also directed federal regulators to prescribe standards for the security of consumer information. SmartBank is subject to such standards, as well as standards for notifying customers in the event of a security breach. SmartBank utilizes credit bureau data in underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act and Regulation V on a uniform, nationwide basis, including credit reporting, prescreening, and sharing of information between affiliates and the use of credit data. The Fair and Accurate Credit Transactions Act, which amended the Fair Credit Reporting Act, permits states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of that Act. We are also required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused.

### ***Anti-Tying Restrictions***

In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for them on the condition that (1) the customer obtain or provide some additional credit, property, or services from or to the bank or bank holding company or their subsidiaries or (2) the customer not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. A bank may, however, offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products. The law also expressly permits banks to engage in other forms of tying and

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authorizes the Federal Reserve to grant additional exceptions by regulation or order. Also, certain foreign transactions are exempt from the general rule.

### ***Consumer Regulation***

Activities of SmartBank are subject to a variety of statutes and regulations designed to protect consumers. These laws and regulations include, among numerous other things, provisions that:

- limit the interest and other charges collected or contracted for by SmartBank, including rules respecting the terms of credit cards and of debit card overdrafts;
- govern SmartBank’s disclosures of credit terms to consumer borrowers;
- require SmartBank to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the communities it serves;
- prohibit SmartBank from discriminating on the basis of race, creed or other prohibited factors when it makes decisions to extend credit;
- govern the manner in which SmartBank may collect consumer debts; and
- prohibit unfair, deceptive or abusive acts or practices in the provision of consumer financial products and services.

### ***Mortgage Regulation***

The CFPB adopted a rule that implements the ability-to-repay and qualified mortgage provisions of the Dodd-Frank Act, (the “ATR/QM rule”), which requires lenders to consider, among other things, income, employment status, assets, payment amounts, and credit history before approving a mortgage, and provides a compliance “safe harbor” for lenders that issue certain “qualified mortgages.” The ATR/QM rule defines a “qualified mortgage” to have certain specified characteristics, and generally prohibit loans with negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years from being qualified mortgages. The rule also establishes general underwriting criteria for qualified mortgages, including that monthly payments be calculated based on the highest payment that will apply in the first five years of the loan and that the borrower have a total debt-to-income ratio that is less than or equal to 43%. While “qualified mortgages” will generally be afforded safe harbor status, a rebuttable presumption of compliance with the ability-to-repay requirements will attach to “qualified mortgages” that are “higher priced mortgages” (which are generally subprime loans). In addition, the securitizer of asset-backed securities must retain not less than 5% of the credit risk of the assets collateralizing the asset-backed securities, unless subject to an exemption for asset-backed securities that are collateralized exclusively by residential mortgages that qualify as “qualified residential mortgages.”

The CFPB has also issued rules to implement requirements of the Dodd-Frank Act pertaining to mortgage loan origination (including with respect to loan originator compensation and loan originator qualifications) as well as integrated mortgage disclosure rules. In addition, the CFPB has issued rules that require servicers to comply with certain standards and practices with regard to: error correction; information disclosure; force-placement of insurance; information management policies and procedures; requiring information about mortgage loss mitigation options be provided to delinquent borrowers; providing delinquent borrowers access to servicer personnel with continuity of contact about the borrower’s mortgage loan account; and evaluating borrowers’ applications for available loss mitigation options. These rules also address initial rate adjustment notices for adjustable-rate mortgages (ARMs), periodic statements for residential mortgage loans, and prompt crediting of mortgage payments and response to requests for payoff amounts.

### ***Non-Discrimination Policies***

SmartBank is also subject to, among other things, the provisions of the Equal Credit Opportunity Act (the “ECOA”) and the Fair Housing Act (the “FHA”), both of which prohibit discrimination based on race or color, religion, national origin, sex, and familial status in any aspect of a consumer or commercial credit or residential real estate transaction. The Department of Justice (the “DOJ”), and the federal bank regulatory agencies have issued an Interagency Policy Statement on Discrimination in Lending that provides guidance to financial institutions in determining whether discrimination exists, how the agencies will respond to lending discrimination, and what steps lenders might take to prevent discriminatory lending practices. The DOJ has increased its efforts to prosecute what it regards as violations of the ECOA and FHA.

## ITEM 1A. RISK FACTORS

*Investing in our common stock involves various risks which are particular to SmartFinancial, its industry, and its market area. Several risk factors regarding investing in our securities are discussed below. This listing should not be considered as all-inclusive. If any of the following risks were to occur, we may not be able to conduct our business as currently planned and our financial condition or operating results could be negatively impacted. These matters could cause the trading price of our securities to decline in future periods.*

### **Risks Related to Our Industry**

***Our net interest income could be negatively affected by interest rate adjustments by the Federal Reserve Board.***

As a financial institution, our earnings are dependent upon our net interest income, which is the difference between the interest income that we earn on interest-earning assets, such as investment securities and loans, and the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings. Therefore, any change in general market interest rates, including changes resulting from changes in the Federal Reserve Board's policies, affects us more than non-financial institutions and can have a significant effect on our net interest income and total income. Our assets and liabilities may react differently to changes in overall market rates or conditions because there may be mismatches between the repricing or maturity characteristics of our assets and liabilities. As a result, an increase or decrease in market interest rates could have a material adverse effect on our net interest margin and results of operations. Actions by monetary and fiscal authorities, including the Federal Reserve Board, could have an adverse effect on our deposit levels, loan demand, business and results of operations.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets, and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. A decline in the market value of our assets may limit our ability to borrow additional funds. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of any underlying property that serves as collateral for such loans may be adversely affected by any reduced demand resulting from higher interest rates. In addition, an increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income. If interest rates were to decrease, our yield on our variable rate loans and on our new loans would decrease, reducing our net interest income. In addition, lower interest rates may reduce our realized yields on investment securities which would reduce our net interest income and cause downward pressure on net interest margin in future periods. A significant reduction in our net interest income could have a material adverse impact on our capital, financial condition and results of operations.

The primary tool that management uses to measure short-term interest rate risk is a net interest income simulation model prepared by an independent third party provider. As of December 31, 2020, SmartFinancial is considered to be in an asset-sensitive position, meaning income is generally expected to increase with an increase in short-term interest rates and, conversely, to decrease with a decrease in short-term interest rates. Based on the results of this simulation model, which assumed a static environment with no contemplated asset growth or changes in our balance sheet management strategies, if short-term interest rates immediately increased by 200 basis points, we could expect net interest income to increase by approximately \$11.9 million over a 12-month period. If short-term interest rates immediately decreased by 200 basis points, we could expect net interest income to decrease by approximately \$2.4 million over the next 12-month period.

***We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations.***

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify these systems as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. We outsource many of our major systems, such as data processing, loan servicing and deposit processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process new and renewal loans, gather deposits and provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

Several U.S. financial institutions have recently experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other attacks have attempted to obtain unauthorized access to confidential information or destroy data, often through the introduction of computer viruses or malware, cyber-attacks and other means. To date, none of these types of attacks have had a material effect on our business or operations. However, no assurances can be provided that we may not suffer from such an attack in the future that may cause us material harm. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action and reputational harm to us.

In addition, we provide our customers the ability to bank remotely, including over the Internet or through their mobile device. The secure transmission of confidential information is a critical element of remote and mobile banking. Although we regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cyber security breaches, including firewalls and penetration testing, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminal intent on committing cyber-crime. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches (including breaches of security of customer systems and networks) and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to extensive government regulation that could limit or restrict our activities, which in turn may adversely impact our ability to increase our assets and earnings.***

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the TDFI and to a lesser extent, the FDIC and the CFPB. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels, and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business, profitability or growth strategy. Increased regulation could increase our cost of compliance and adversely affect profitability. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank's ability to implement components of its business plan, such as expansion through mergers and acquisitions or the opening of new branch offices. In addition, changes in regulatory requirements may add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve System, significantly affect credit conditions. Negative developments in the financial industry and the impact of new legislation and regulation in response to those developments could negatively impact our business operations and adversely impact our financial performance.

***The Federal Reserve may require us to commit capital resources to support the Bank.***

The Federal Reserve requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the bank holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. As a result, we may not be able to serve existing indebtedness, and such default may require us to declare bankruptcy. Any capital contributions by a bank holding company to its subsidiary banks are subordinate in right of payment to deposits and to other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be incurred by us to make a required capital injection to the Bank becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

***Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.***

The Federal Reserve and the TDFI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity, interest rate sensitivity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

## Risks Related to Our Company

*The novel coronavirus, COVID-19, may adversely affect our business, financial condition, results of operations and our liquidity in the short term and for the foreseeable future.*

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.

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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.

***If our allowance for loan losses and fair value adjustments with respect to acquired loans is not sufficient to cover actual loan losses, our earnings will be adversely affected.***

Our success depends significantly on the quality of our assets, particularly loans. Like other financial institutions, we are exposed to the risk that our borrowers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to fully compensate us for the outstanding balance of the loan plus the costs to dispose of the collateral. As a result, we may experience significant loan losses that may have a material adverse effect on our operating results and financial condition.

We maintain an allowance for loan losses with respect to our loan portfolio, in an attempt to cover loan losses inherent in our loan portfolio. In determining the size of the allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions. We also make various assumptions and judgments about the collectability of our loan portfolio, including the diversification in our loan portfolio, the effect of changes in the economy on real estate and other collateral values, the results of recent regulatory examinations, the effects on the loan portfolio of current economic conditions and their probable impact on borrowers, the amount of charge-offs for the period and the amount of nonperforming loans and related collateral security.

The application of the acquisition method of accounting in our acquisitions has impacted our allowance for loan losses. Under the acquisition method of accounting, all acquired loans were recorded in our consolidated financial statements at their fair values at the time of acquisition and the related allowance for loan losses was eliminated because credit quality, among other factors, was considered in the determination of fair value. To the extent that our estimates of fair values are too high, we will incur losses associated with the acquired loans. The allowance, if any, associated with our purchased credit impaired loans reflects deterioration in cash flows since acquisition resulting from our quarterly re-estimation of cash flows which involves complex cash flow projections and significant judgment on timing of loan resolution.

If our analysis or assumptions prove to be incorrect, our current allowance may not be sufficient, and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Material additions to the allowance for loan losses would materially decrease our net income and adversely affect our general financial condition.

As of December 31, 2020, our allowance for loan losses as a percentage of total loans was 0.77% and as a percentage of total nonperforming loans was 315.16%. Although management believes that the allowance for loan losses is adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's decision to do so or because our banking regulators require us to do so. Federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs required by these regulatory agencies could have a material adverse effect on our operating results and financial condition.

***Our success depends significantly on economic conditions in our market areas.***

Unlike larger organizations that are more geographically diversified, our branches are currently concentrated in East and Middle Tennessee, Alabama and the Florida Panhandle. As a result of this geographic concentration, our financial results will depend largely upon economic conditions in these market areas. If the communities in which we operate do not grow or if prevailing economic conditions, locally or nationally, deteriorate, this may have a significant impact on the amount of loans that we originate, the ability of our borrowers to repay these loans and the value of the collateral securing these loans. A return to economic downturn conditions caused by inflation, recession, unemployment, government action, health emergencies, disease pandemics, natural disasters or other factors beyond our control would likely contribute to the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would have an adverse

effect on our business. In addition, some portions of our target market are in areas which a substantial portion of the economy is dependent upon tourism. The tourism industry tends to be more sensitive than the economy as a whole to changes in unemployment, inflation, wage growth, and other factors which affect consumer's financial condition and sentiment.

***Competition from financial institutions and other financial service providers may adversely affect our profitability.***

We experience competition in our market from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, internet banks, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other community banks and super-regional and national financial institutions that operate offices in our service area. These competitors often have far greater resources than we do and are able to conduct more extensive and broader marketing efforts to reach both commercial and individual clients. Our competitors may be able to offer more attractive interest rates and other financial terms than we offer or have the ability to offer. Some of our non-bank competitors are not subject to the same extensive regulations we are and, therefore, may have greater flexibility in competing for business. We compete with these other financial institutions both in attracting deposits and in making loans. In addition, we must attract our client base from other existing financial institutions and from new residents. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to successfully compete with an array of financial institutions in our service area. Our ability to compete successfully will depend on a number of factors, including, among other things, our ability to recruit and retain experienced and talented bankers at competitive compensation levels, build and maintain long-term client relationships while ensuring high ethical standards and safe and sound banking practices, compete with the scope, relevance and pricing of the products and services we provide, maintain a competitive level of client satisfaction with our products and services, keep pace with technological advances and invest in new technology, and depend on general economic trend and trends within our industry.

Increased competition could require us to increase the rates that we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, prospects and results of operations.

***Our organic loan growth may be limited by regulatory constraints.***

During 2019 many of the regulatory agencies, including ours, increased their focus on the application of an interagency guidance issued in 2006, titled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices." The 2006 interagency guidance focuses on the risks of high levels of concentration in CRE lending at banking institutions, and specifically addresses two supervisory criteria:

- Construction concentration criterion: Loans for construction, land, and land development (CLD or "construction") represent 100% or more of a banking institution's total risk-based capital, commonly referred to as the "100 ratio"
- Total CRE concentration criterion: Total nonowner-occupied CRE loans (including CLD loans), as defined in the 2006 guidance ("total CRE"), represent 300% or more of the institution's total risk-based capital, and growth in total CRE lending has increased by 50% or more during the previous 36 months, commonly referred to as the "300 ratio"

The guidance states that banking institutions exceeding the concentration levels mentioned in the two supervisory criteria should have in place enhanced credit risk controls, including stress testing of CRE portfolios. At the end of 2020 our loan portfolio was below both the 100 and 300 ratios as laid out in the guidance, but given the guidance our ability to grow those loan types could be constrained by the amount we are also able to grow capital.

***Changes in accounting standards, including the implementation of Current Expected Credit Loss methodology, could materially affect how we report our financial results.***

The Financial Accounting Standards Board adopted a new accounting standard for determining the amount of our allowance for credit losses (ASU 2016-13 Financial Instruments - Credit Losses (Topic 326)) that will be effective for us January 1, 2023. We believe that adoption of ASU 2016-13 will result in an increase to our allowance for loan and lease losses, referred to as Current Expected Credit Loss (“CECL”). Implementation of CECL will require that we determine periodic estimates of lifetime expected future credit losses on loans in the allowance for loan and lease losses in the period when the loans are booked. The ongoing impact of CECL will be significantly influenced by the composition, characteristics and quality of our loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Should these factors materially change, we may be required to increase or decrease our allowance for loan and lease losses, decreasing or increasing our net income, and introducing additional volatility into our net income.

***To the extent that we are unable to identify and consummate attractive acquisitions, or increase loans through organic loan growth, we may be unable to successfully implement our growth strategy, which could materially and adversely affect us.***

A substantial part of our historical growth has been a result of acquisitions and we intend to continue to grow our business through strategic acquisitions of banking franchises coupled with organic loan growth. Previous availability of attractive acquisition targets may not be indicative of future acquisition opportunities, and we may be unable to identify any acquisition targets that meet our investment objectives. To the extent that we are unable to find suitable acquisition candidates, an important component of our strategy may be lost. We also face significant competition from numerous other financial services institutions, many of which will have greater financial resources than we do, when considering acquisition opportunities. Accordingly, attractive acquisition opportunities may not be available to us. There can be no assurance that we will be successful in identifying or completing any future acquisitions. If we are able to identify attractive acquisition opportunities, we must generally satisfy a number of conditions prior to completing any such transaction, including certain bank regulatory approvals, which have become substantially more difficult, time-consuming and unpredictable as a result of the recent financial crisis. Additionally, any future acquisitions may not produce the revenue, earnings or synergies that we anticipated. As our purchased credit impaired loan portfolio, which produces substantially higher yields than our organic and purchased non-credit impaired loan portfolios, is paid down, we expect downward pressure on our income. If we are unable to replace our purchased credit impaired loans and the related accretion with a significantly higher level of new performing loans and other earning assets due to our inability to identify attractive acquisition opportunities, a decline in loan demand, competition from other financial institutions in our markets, stagnation or continued deterioration of economic conditions, or other conditions, our financial condition and earnings may be adversely affected.

***Our recent acquisition and future expansion may result in additional risks.***

We expect to continue to expand in our current markets and in other select markets through additional branches or through acquisitions of all or part of other financial institutions. These types of expansions involve various risks, including the risks detailed below.

The merger with PFG was completed on March 1, 2020, and while this integration effort is substantially complete, we continue to manage the acquired business through the transition. The success of this transition will depend on, among other things, our ability to realize anticipated costs savings and to manage the acquired assets and operations in a manner that permits growth opportunities and does not materially disrupt our existing customer relationships or result in decreased revenues resulting from any loss of customers. We may encounter a number of difficulties, including, among others:

- the loss of key employees;
- disruption of operations and business;
- inability to maintain and increase competitive presence;
- loan and deposit attrition, customer loss and revenue loss, including as a result of any decision we may make to close one or more locations;
- possible inconsistencies in standards, control procedures and policies;

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- unexpected problems with costs, operations, personnel, technology and credit; and/or
- problems with the assimilation of new operations, sites or personnel, which could divert resources from regular banking operations.

Failure to achieve these anticipated benefits on the anticipated timeframe, or at all, could result in a reduction in the price of our shares as well as in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could materially and adversely affect our business, results of operations and financial condition. Additionally, will make fair value estimates of certain assets and liabilities in recording our acquisition of PFG. Actual values of these assets and liabilities could differ from our estimates, which could result in our not achieving the anticipated benefits of the acquisition. Finally, any cost savings that are realized may be offset by losses in revenues or other charges to earnings.

Further, we acquire banks with the expectation that these mergers will result in various benefits including, among other things, benefits relating to enhanced revenues, a strengthened market position for the combined company, cross selling opportunities, technology, cost savings and operating efficiencies. Achieving the anticipated benefits of these mergers is subject to a number of uncertainties, including whether we integrate these institutions in an efficient and effective manner, and general competitive factors in the marketplace. Failure to achieve these anticipated benefits could result in a reduction in the price of our shares as well as in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could materially and adversely affect our business, financial condition and operating results.

### ***We may face risks with respect to future acquisitions.***

When we attempt to expand our business through mergers and acquisitions, we seek targets that are culturally similar to us, have experienced management and possess either market presence or have potential for improved profitability through economies of scale or expanded services. In addition to the general risks associated with our growth plans which are highlighted above, in general, acquiring other banks, businesses or branches, particularly those in markets with which we are less familiar, involves various risks commonly associated with acquisitions.

We expect to continue to evaluate merger and acquisition opportunities that are presented to us in our current markets, as well as other markets, throughout the region and conduct due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash or equity securities and related capital raising transactions may occur at any time. Generally, acquisitions of financial institutions involve the payment of a premium over book and market values, and, therefore, some dilution of our book value and fully diluted earnings per share may occur in connection with any future transaction. Failure to realize the expected revenue increases, cost savings, increases in product presence and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

### ***Our concentration in loans secured by real estate, particularly commercial real estate and construction and development, is subject to risks that could adversely affect our results of operations and financial condition.***

We offer a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Many of our loans are secured by real estate (both residential and commercial) in our market areas. Consequently, declines in economic conditions in these market areas may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse.

At December 31, 2020, approximately 73% of our loans had real estate as a primary or secondary component of collateral, which includes 12% of our loans secured by construction and development collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Real estate values declined significantly during the recent economic crisis and may decline similarly in future periods. Although real estate prices in

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most of our markets have stabilized or are improving, a renewed decline in real estate values would expose us to further deterioration in the value of the collateral for all loans secured by real estate and may adversely affect our results of operations and financial condition.

Commercial real estate loans are generally viewed as having more risk of default than residential real estate loans, particularly when there is a downturn in the business cycle. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the owner's business or the property to service the debt. Cash flows may be affected significantly by general economic conditions and a downturn in the local economy or in occupancy rates in the local economy where the property is located, each of which could increase the likelihood of default on the loan. Because our loan portfolio contains a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in the percentage of nonperforming loans. An increase in nonperforming loans could result in a loss of earnings from these loans, an increase in the provision for loan losses and an increase in charge-offs, all of which could have a material adverse effect on our results of operations and financial condition, which could negatively affect our stock price.

If a commercial real estate loan did default there would be legal expenses associated with obtaining the real estate which is typically collateral for the loan. In the last several years the amount of these legal expenses has been low, compared to periods when the defaults of commercial real estate loans have been higher. Once we obtain the collateral for the commercial real estate loan it is put into other real estate owned. Other real estate owned assets generally do not produce income but do have the costs associated with the ownership of real estate, principally real estate taxes and maintenance costs. Since these assets have a cost to maintain our goal is to keep costs at a minimum by liquidating the assets as soon as possible. Among other reasons the rate of loan defaults increase as the economy worsens and declining economic environment and political turmoil generally results in downward pressure on foreclosed asset values and increased marketing periods.

### ***Our largest loan relationships currently make up a significant percentage of our total loan portfolio.***

As of December 31, 2020, our 10 largest borrowing relationships totaled approximately \$192 million in outstanding balances, or approximately 8% of our total loan portfolio. The concentration risk associated with having a small number of relatively large loan relationships is that, if one or more of these relationships were to become delinquent or suffer default, we could be at risk of material losses. The allowance for loan losses may not be adequate to cover losses associated with any of these relationships, and any loss or increase in the allowance could have a material adverse effect on our business, financial condition, results of operations and prospects.

### ***Declines in the businesses or industries of our customers could cause increased credit losses and decreased loan balances, which could adversely affect our financial results.***

The small to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could have an adverse effect on our business, financial condition and results of operations. A substantial focus of our marketing and business strategy is to serve small to medium-sized businesses in our market areas. As a result, a relatively high percentage of our loan portfolio consists of commercial loans to such businesses. We further anticipate an increase in the amount of loans to small to medium-sized businesses during 2021.

Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management skills, talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have an adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise harmed by adverse business developments, this, in turn, could have an adverse effect on our business, financial condition and results of operations.

***Real estate market volatility and future changes in our disposition strategies could result in net proceeds that differ significantly from our other real estate owned fair value appraisals.***

As of December 31, 2020, we held an other real estate owned balance of \$4.6 million. Our other real estate owned portfolio historically has been insignificant, and generally consisted of properties that we obtained through foreclosure or through a deed in lieu of foreclosure. Properties in our other real estate owned portfolio are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the “fair value,” which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Generally, in determining “fair value,” an orderly disposition of the property is assumed, except when a different disposition strategy is expected. Judgment is required in estimating the fair value of other real estate owned, and the period of time within which such estimates can be considered current is shortened during periods of market volatility. As a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from appraisals, comparable sales and other estimates used to determine the fair value of our other real estate owned properties.

***Our use of appraisals in deciding whether to make a loan secured by real property does not ensure the value of the real property collateral.***

In considering whether to make a loan secured by real property we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is conducted, and an error in fact or judgment could adversely affect the reliability of an appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors the value of collateral securing a loan may be less than estimated, and if a default occurs we may not recover the outstanding balance of the loan.

***Interest rates on our outstanding financial instruments might be subject to change based on regulatory developments, which could adversely affect our revenue, expenses, and the value of those financial instruments.***

LIBOR and certain other “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is unclear whether, at that time, LIBOR will cease to exist or if new methods of calculating LIBOR will be established. If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, interest rates on our floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, as well as the revenue and expenses associated with those financial instruments, may be adversely affected. Any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates.

Our adjustable-rate commercial real estate loans are generally based on the Wall Street Journal Prime Rate (WSJPR) or London Interbank Offered Rate (LIBOR). However, we may not be able to successfully eliminate all loans tied to LIBOR prior to 2022. Even with “fallback” provisions contained within remaining LIBOR tied loans, changes to or the discontinuance of LIBOR could result in customer uncertainty and disputes around how variable rates should be calculated. All of this could result in damage to our reputation, loss of customers and additional costs to us, all of which could be material.

***Liquidity risk could impair our ability to fund our operations and jeopardize our financial condition.***

Liquidity represents an institution’s ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility that we may be unable to satisfy current or future funding requirements and needs.

The objective of managing liquidity risk is to ensure that our cash flow requirements resulting from depositor, borrower and other creditor demands as well as our operating cash needs, are met, and that our cost of funding such requirements and needs is reasonable. We maintain an asset/liability and interest rate risk policy and a liquidity and funds management

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policy, including a contingency funding plan that, among other things, include procedures for managing and monitoring liquidity risk. Generally we rely on deposits, repayments of loans and cash flows from our investment securities as our primary sources of funds. Our principal deposit sources include consumer, commercial and public funds customers in our markets. We have used these funds, together with wholesale deposit sources such as brokered deposits, along with Federal Home Loan Bank of Cincinnati (“FHLB Cincinnati”) advances, federal funds purchased and other sources of short-term and long-term borrowings, to make loans, acquire investment securities and other assets and to fund continuing operations.

An inability to maintain or raise funds in amounts necessary to meet our liquidity needs could have a substantial negative effect, individually or collectively, on SmartFinancial and SmartBank’s liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. For example, factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us, a reduction in our credit rating, any damage to our reputation or any other decrease in depositor or investor confidence in our creditworthiness and business. Our access to liquidity could also be impaired by factors that are not specific to us, such as severe volatility or disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Any such event or failure to manage our liquidity effectively could affect our competitive position, increase our borrowing costs and the interest rates we pay on deposits, limit our access to the capital markets, cause our regulators to criticize our operations and have a material adverse effect on our results of operations or financial condition.

Deposit levels may be affected by a number of factors, including demands by customers, rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, general economic and market conditions and other factors. Loan repayments are a relatively stable source of funds but are subject to the borrowers’ ability to repay loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters, prolonged government shutdowns and other factors. Furthermore, loans generally are not readily convertible to cash. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet growth in loans, deposit withdrawal demands or otherwise fund operations. Such secondary sources include FHLB Cincinnati advances, brokered deposits, secured and unsecured federal funds lines of credit from correspondent banks, Federal Reserve borrowings and/or accessing the equity or debt capital markets.

We anticipate we will continue to rely primarily on deposits, loan repayments, and cash flows from our investment securities to provide liquidity. Additionally, where necessary, the secondary sources of borrowed funds described above will be used to augment our primary funding sources. If we are unable to access any of these secondary funding sources when needed, we might be unable to meet our customers’ or creditors’ needs, which would adversely affect our financial condition, results of operations, and liquidity.

***We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.***

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities, or instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

***We face additional risks due to our increase in mortgage banking activities that have and could negatively impact our net income and profitability.***

We have established mortgage banking operations which expose us to risks that are different from our retail and commercial banking operations. During higher and rising interest rate environments, the demand for mortgage loans and the level of refinancing activity tends to decline, which can lead to reduced volumes of business and lower revenues, which could negatively impact our earnings. While we have been experiencing historically low interest rates, the low interest rate environment likely will not continue indefinitely. Because we sell a portion of the mortgage loans we originate, the profitability of our mortgage banking operations also depends in large part on our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (a) the existence of an active secondary market and (b) our ability to profitably sell loans into that market. Profitability of our mortgage operations will depend upon our ability to increase production and thus income while holding or reducing costs. In addition, mortgages sold to third-party investors are typically subject to certain repurchase provisions related to borrower refinancing, defaults, fraud or other reasons stipulated in the applicable third-party investor agreements. If the fair value of a loan when repurchased is less than the fair value when sold, we may be required to charge such shortfall to earnings.

***Any expansion into new lines of business might not be successful.***

As part of our ongoing strategic plan, we will continue to consider expansion into new lines of business through the acquisition of third parties, or through organic growth and development. There are substantial risks associated with such efforts, including risks that (a) revenues from such activities might not be sufficient to offset the development, compliance, and other implementation costs, (b) competing products and services and shifting market preferences might affect the profitability of such activities, (c) regulatory compliance obligations prevent the success of a new line of business, and (d) our internal controls might be inadequate to manage the risks associated with new activities. Furthermore, it is possible that our unfamiliarity with new lines of business might adversely affect the success of such actions. If any such expansions into new product markets are not successful, there could be an adverse effect on our financial condition and results of operations.

***Any deficiencies in our financial reporting or internal controls could materially and adversely affect us, including resulting in material misstatements in our financial statements, and could materially and adversely affect the market price of our common stock.***

If we fail to maintain effective internal controls over financial reporting, our operating results could be harmed and it could result in a material misstatement in our financial statements in the future. Inferior controls and procedures or the identification of accounting errors could cause our investors to lose confidence in our internal controls and question our reported financial information, which, among other things, could have a negative impact on the trading price of our common stock. Additionally, we could become subject to increased regulatory scrutiny and a higher risk of shareholder litigation, which could result in significant additional expenses and require additional financial and management resources.

***Inability to retain senior management and key employees or to attract new experienced financial services professionals could impair our relationship with our customers, reduce growth and adversely affect our business.***

We have assembled a senior management team which has substantial background and experience in banking and financial services. Moreover, much of historical loan growth was the result of our ability to attract experienced financial services professionals who have been able to attract customers from other financial institutions. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. Our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations as discussed in “Part 1 – Item 1. Business – Supervision and Regulation – Regulation of the Company – Incentive Compensation.” Inability to retain these key personnel or to continue

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to attract experienced lenders with established books of business could negatively impact our growth because of the loss of these individuals' skills and customer relationships and/or the potential difficulty of promptly replacing them. In addition, to attract and retain personnel with appropriate skills and knowledge to support our business, we may offer a variety of benefits, which could reduce our earnings.

### ***Employee misconduct could expose us to significant legal liability and reputational harm.***

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our customers are of critical importance. Our employees could engage in fraudulent, illegal, wrongful or suspicious activities, and/or activities resulting in consumer harm that adversely affects our customers and/or our business. The precautions we take to detect and prevent such misconduct may not always be effective and regulatory sanctions and/or penalties, serious harm to our reputation, financial condition, customer relationships and ability to attract new customers. In addition, improper use or disclosure of confidential information by our employees, even if inadvertent, could result in serious harm to our reputation, financial condition and current and future business relationships. The precautions we take to detect and prevent such misconduct may not always be effective.

### ***We may be adversely affected by the soundness of other financial institutions.***

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Additionally, if our competitors were extending credit on terms we found to pose excessive risks, or at interest rates which we believed did not warrant the credit exposure, we may not be able to maintain our business volume and could experience deteriorating financial performance.

## **Risks Related to Our Stock**

### ***Our ability to declare and pay dividends is limited.***

There can be no assurance of whether or when we may pay dividends on our common stock in the future. Future dividends, if any, will be declared and paid at the discretion of our board of directors and will depend on a number of factors. Our principal source of funds used to pay cash dividends on our common stock will be dividends that we receive from SmartBank. Although the Bank's asset quality, earnings performance, liquidity and capital requirements will be taken into account before we declare or pay any future dividends on our common stock, our board of directors will also consider our liquidity and capital requirements and our board of directors could determine to declare and pay dividends without relying on dividend payments from the Bank.

Federal and state banking laws and regulations and state corporate laws restrict the amount of dividends we may declare and pay. For example, the Federal Reserve could decide at any time that paying any dividends on our common stock could be an unsafe or unsound banking practice. For a discussion of current regulatory limits on our ability to pay dividends, see "Part I – Item 1. Business – Supervision and Regulation – Regulation of the Company – Payment of Dividends" in this Report for further information.

### ***Even though our common stock is currently traded on the Nasdaq Capital Market, it has less liquidity than many other stocks quoted on a national securities exchange.***

The trading volume in our common stock on the Nasdaq Capital Market has been relatively low when compared with larger companies listed on the Nasdaq Capital Market or other stock exchanges. Although we have experienced increased liquidity in our stock, we cannot say with any certainty that a more active and liquid trading market for our common stock will continue to develop. A public trading market having the desired characteristics of depth, liquidity and orderliness

depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the continued development of the trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

***We may issue additional shares of stock or equity derivative securities, including awards to current and future executive officers, directors and employees, which could result in the dilution of shareholders' investment.***

Our authorized capital includes 40,000,000 shares of common stock and 2,000,000 shares of preferred stock. As of December 31, 2020, we had 15,107,214 shares of common stock and no shares of preferred stock outstanding, and had reserved or otherwise set aside for issuance 99,617 shares underlying outstanding options and 1,876,894 shares that are available for future grants of stock options, restricted stock or other equity-based awards pursuant to our equity incentive plans. Subject to NASDAQ rules, our board of directors generally has the authority to issue all or part of any authorized but unissued shares of common stock or preferred stock for any corporate purpose. We anticipate that we will issue additional equity in connection with the acquisition of other strategic partners and that in the future we likely will seek additional equity capital as we develop our business and expand our operations, depending on the timing and magnitude of any particular future acquisition. These issuances would dilute the ownership interests of existing shareholders and may dilute the per share book value of the common stock. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, our then existing shareholders.

In addition, the issuance of shares under our equity compensation plans will result in dilution of our shareholders' ownership of our Common Stock. The exercise price of stock options could also adversely affect the terms on which we can obtain additional capital. Option holders are most likely to exercise their options when the exercise price is less than the market price for our Common Stock. They may profit from any increase in the stock price without assuming the risks of ownership of the underlying shares of Common Stock by exercising their options and selling the stock immediately.

***The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and time desired.***

The market price of our common stock may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry generally;
- perceptions in the marketplace regarding us and/or our competitors; and
- fluctuations in the stock price and operating results of our competitors.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

***We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.***

Although there are currently no shares of our preferred stock issued and outstanding, our articles of incorporation authorize us to issue up to 2 million shares of one or more series of preferred stock. Our board of directors also has the power, without shareholder approval (subject to Nasdaq shareholder approval rules), to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common

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stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our board of directors to issue shares of preferred stock without any action on the part of our shareholders (subject to Nasdaq shareholder approval rules) may impede a takeover of us and prevent a transaction perceived to be favorable to our shareholders.

***Anti-takeover laws and certain agreements and charter provisions may adversely affect the price of our common stock.***

Certain provisions of state and federal law and our articles of incorporation may make it more difficult for someone to acquire control of the Company. Under federal law, subject to certain exemptions, a person, entity, or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including the Company's shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take into account several factors, including the resources of the acquiror and the antitrust effects of the acquisition. There also are Tennessee statutory provisions and provisions in our charter that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in our articles of incorporation could result in the Company being less attractive to a potential acquiror.

Secondly, the amount of common stock owned by, and other compensation arrangements with, certain of our officers and directors may make it more difficult to obtain shareholder approval of potential takeovers that they oppose. Agreements with our senior management also provide for significant payments under certain circumstances following a change in control. These compensation arrangements, together with the common stock and option ownership of our board of directors and management, could make it difficult or expensive to obtain majority support for shareholder proposals or potential acquisition proposals that the board of directors and officers oppose.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The headquarters of SmartFinancial is located at 5401 Kingston Pike, #600, Knoxville, Tennessee 37919. This property is owned by SmartBank and also serves as a branch location for the Bank's customers. As of March 1, 2021, the Bank has 35 full service branches, one loan production office and one operation center for a total of 37 locations, of which 27 are owned and 10 that are leased. Although the properties owned and leased are generally considered adequate, we have a continuing program of modernization, expansion, and when necessary, occasional replacement of facilities. For additional information relating to the Company's premises, equipment and lease commitments, see Note 6—Premises and Equipment to our audited consolidated financial statements.

**ITEM 3. LEGAL PROCEEDINGS**

As of the end of 2020, neither SmartFinancial nor SmartBank was involved in any material litigation. SmartBank is periodically involved as a plaintiff or defendant in various legal actions in the ordinary course of its business. Management believes that any claims pending against SmartFinancial or its subsidiary are without merit or that the ultimate liability, if any, resulting from them will not materially affect SmartBank's financial condition or SmartFinancial's consolidated financial position.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

SmartFinancial's common stock is listed on the Nasdaq Capital Market under the symbol "SMBK".

As of March 08, 2021, there were approximately 3,242 holders of record of SmartFinancial's common stock and 15,113,045 shares outstanding.

Dividends from SmartBank are the Company's primary source of funds to pay dividends on its common stock. Additional information regarding restrictions on the ability of SmartBank to pay dividends to the Company and for the Company to pay dividends to its shareholders is contained in "Part I – Item 1. Business – Supervision and Regulation – Payment of Dividends".

#### Equity Compensation Plan Information

For information relating to compensation plans under which our equity securities are authorized for issuance, see Part III Items 11 and 12.

#### Issuer Purchases of 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 December 31, 2020, we have purchased \$4.3 million of the authorized \$10.0 million and may purchase up to an additional \$5.7 million in the Company's outstanding common stock.

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The following table summarizes the Company's repurchase activity during the quarter ended December 31, 2020.

<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Weighted Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)</u>
October 1, 2020 to October 31, 2020	7,143	\$ 14.80	7,143	\$ 7,819
November 1, 2020 to November 30, 2020	99,213	16.48	99,213	6,184
December 1, 2020 to December 31, 2020	27,355	18.00	27,355	5,692
Total	<u>133,711</u>	<u>\$ 16.70</u>	<u>133,711</u>	<u>\$ 5,692</u>

## ITEM 6. SELECTED FINANCIAL DATA

This item is not applicable to smaller reporting companies.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of our operations for the years ended December 31, 2020 and 2019 and our results of operations for each of the years in the three-year period ended December 31, 2020. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from our consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth in the "Forward-Looking Statements" and "Risk Factors" sections of this Annual Report, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements.

### *Business Overview*

We are a bank holding company that was incorporated on September 19, 1983 under the laws of the State of Tennessee, and operate primarily through our wholly-owned bank subsidiary, SmartBank. SmartBank provides a comprehensive suite of commercial and consumer banking services to clients through 35 full-service bank branches and one loan production office 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.

### *Executive Summary*

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

- Completed the acquisition and integration of Progressive Financial Group, Inc. ("PFG").
- Originated approximately 2,950 Paycheck Protection Program ("PPP") loans totaling \$300.8 million.

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- Net income totaled \$24.3 million, or \$1.62 per diluted common share, during the year ended of 2020 compared to \$26.5 million, or \$1.89 per diluted common share, for the same period in 2019.
- Ended 2020 with record high total assets of \$3.3 billion, net loans of \$2.4 billion, and deposits of \$2.8 billion.
- Return on average assets was 0.79% for the year ended December 31, 2020, compared to 1.13% for the year ended December 31, 2019.
- Allowance for loan losses increased to \$18.3 million at December 31, 2020, an increase of 79.1% from the prior year, in response to the current economic conditions related to COVID-19.
- The COVID-19 pandemic has caused economic and social disruption on an unprecedented scale. Congress, former President Donald Trump, and the Federal Reserve have taken several actions designed to cushion the economic fallout. On March 27, 2020, the CARES Act was signed into law. It contained substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act included the PPP, a nearly \$350 billion program designed to aid small and medium-sized businesses through federally guaranteed loans distributed through banks. These loans were intended to guarantee eight weeks of payroll and other costs to help those businesses remain viable and allow their workers to pay their bills. The initial \$350 billion program was supplemented in late April 2020 with \$310 billion in additional funding. On June 5, 2020, the Paycheck Protection Program Flexibility Act (the “new Act”) was signed into law and made significant changes to the PPP to provide additional relief for small businesses. The new Act increased flexibility for small businesses that have been unable to rehire employees due to lack of employee availability or have been unable to operate as normal due to COVID-19 related restrictions. It extended the period that businesses have to use PPP funds to qualify for loan forgiveness to 24 weeks, up from 8 weeks under the original rules. The new Act also relaxed the requirements that loan recipients must adhere to in order to qualify for loan forgiveness. In addition, the new Act extended the payment deferral period for PPP loans until the date when the amount of loan forgiveness is determined and remitted to the lender. For PPP recipients who do not apply for forgiveness, the loan deferral period is 10 months after the applicable forgiveness period ends. The PPP program expired August 8, 2020.
- On December 21, 2020, the Bipartisan-Bicameral Omnibus COVID Relief Deal, included as a component of appropriations legislation, was passed by Congress to provide economic stimulus to individuals and businesses in further response to the economic distress caused by the COVID-19 pandemic. Among other things, the legislation includes (i) payments of \$600 for individuals making up to \$75,000 per year, (ii) extension of the Federal Pandemic Unemployment Compensation program to include a \$300 weekly enhancement in unemployment benefits beginning after December 26, 2020 up to March 14, 2021, (iii) a temporary and targeted rental assistance program, and extends the eviction moratorium through January 31, 2021, (iv) targeted funding related to transportation, education, agriculture, nutrition and other public health measures and (v) approximately \$325 billion for small business relief, including approximately \$284 billion for a second round of PPP loans and a new simplified forgiveness procedure for PPP loans of \$150,000 or less. We are continuing to monitor the potential development of additional legislation and further actions taken by the U.S. government.

### ***Analysis of Results of Operations***

#### 2020 compared to 2019

Net income was \$24.3 million, or \$1.62 per diluted common share in 2020, compared to \$26.5 million, or \$1.89 per diluted common share in 2019. The tax equivalent net interest margin for 2020 was 3.61% compared to 3.95% for 2019. Noninterest income to average assets was 0.50% for 2020, decreasing from 0.65% for 2019. Noninterest expense to average assets decreased to 2.50% in 2020, from 2.70% in 2019. The results above include operating effects of the PFG acquisition, which was completed on March 1, 2020. Income tax expense was \$6.6 million in 2020 with an effective tax rate of 21.2%, compared to \$6.9 million in 2019 with an effective tax rate of 20.6%.

#### 2019 compared to 2018

Net income was \$26.5 million in 2019, compared to \$18.1 million in 2018. Net income available to common shareholders was \$26.5 million, or \$1.89 per diluted common share, in 2019, compared to \$18.1 million, or \$1.45 per diluted common share, in 2018. The net interest margin, taxable equivalent, for 2019 was 3.95% compared to 4.43% for 2018. Noninterest income to average assets increased from 0.34% in 2018, to 0.65% in 2019, primarily due to the \$6.4 million termination

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fee from the termination of the Entegra merger. Noninterest expense to average assets decreased from 3.00% in 2018 to 2.70% in 2019 as the Company continued to capture economies of scale following the mergers with Foothills Bancorp, Inc. (“Foothills”) and Tennessee Bancshares, Inc. (“Tennessee Bancshares”). Income tax expense was \$6.9 million in 2019 with an effective tax rate of 20.6%, compared to \$3.2 million in 2018 with an effective tax rate of 15.2%.

### ***Net Interest Income and Yield Analysis***

The management of interest income and expense is fundamental to our financial performance. Net interest income, the difference between interest income and interest expense, is the largest component of the Company’s total revenue. Management closely monitors both total net interest income and the net interest margin (net interest income divided by average earning assets). We seek to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-earning assets and interest-bearing liabilities. Our net interest margin is also adversely impacted by the reversal of interest on nonaccrual loans and the reinvestment of loan payoffs into lower yielding investment securities and other short-term investments.

#### ***2020 compared to 2019***

Net interest income, taxable equivalent, increased to \$101.4 million in 2020 from \$84.3 million in 2019. Net interest income was positively impacted, compared to the prior year, primarily due to increases in loan balances and a reduction in interest expense on deposits. Average earning assets increased from \$2.1 billion in 2019 to \$2.8 billion in 2020, primarily as a result of the acquisition of PFG completed March 1, 2020, organic loan growth and the Company’s participation in the PPP. Over this period, average loan balances increased by \$452.6 million, average interest-bearing deposits increased by \$290.3 million, average noninterest-bearing deposits increased \$227.7 million and average borrowings increased \$155.7 million. The tax equivalent net interest margin decreased to 3.61% for 2020, compared to 3.95% for 2019. The yield on earning assets decreased from 5.10% for 2019, to 4.20% for 2020, primarily due to rate cuts by the Federal Reserve over the past year and, to a lesser extent loan yields declining from market competition. The cost of average interest-bearing deposits decreased from 1.35% for 2019, to 0.71% for 2020, primarily due to a lower interest rate environment during the period.

#### ***2019 compared to 2018***

Net interest income, taxable equivalent, increased to \$84.3 million in 2019 from \$76.8 million in 2018. The increase in net interest income, taxable equivalent, was the result of a significant increase in earning assets primarily from the mergers with Foothills and Tennessee Bancshares but also from organic growth. Average earning assets increased from \$1.7 billion in 2018 to \$2.1 billion in 2019. Over this period, average loan balances increased by \$327.9 million and average securities balances decreased by \$23.1 million. In addition, total average interest-bearing deposits increased by \$238.8 million. Net interest margin, taxable equivalent, was 3.95% in 2019, compared to 4.43% in 2018, with the decrease due to lower yields on earning assets from 5.32% in 2018 to 5.10% in 2019 an increase cost of interest bearing liabilities from 1.10% in 2018 to 1.46% in 2019.

### Summary of Average Balances, Interest and Rates

The following table presents, for the periods indicated, information about: (i) weighted average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin.

	2020			2019			2018		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
<b>Assets:</b>									
Loans, including fees <sup>1</sup>	\$ 2,289,612	\$ 111,992	4.89 %	\$ 1,836,963	\$ 100,831	5.49 %	\$ 1,509,049	\$ 86,373	5.72 %
Loans held for sale	7,360	320	4.34 %	3,858	171	4.43 %	2,675	106	3.96 %
Taxable securities	122,900	2,423	1.97 %	129,705	3,289	2.54 %	143,281	3,512	2.46 %
Tax-exempt securities <sup>2</sup>	83,765	1,941	2.32 %	56,458	1,972	3.49 %	19,734	767	3.90 %
Federal funds sold and other earning assets	308,843	1,509	0.49 %	110,380	2,646	2.40 %	65,244	1,642	2.52 %
Total interest-earning assets	2,812,480	118,185	4.20 %	2,137,364	108,909	5.10 %	1,739,983	92,400	5.32 %
Noninterest-earning assets	250,955			201,976			222,734		
Total assets	\$ 3,063,435			\$ 2,339,340			\$ 1,962,717		
<b>Liabilities and Stockholders' Equity:</b>									
Interest-bearing demand deposits	\$ 481,050	1,013	0.21 %	\$ 333,100	1,883	0.57 %	\$ 242,859	1,290	0.53 %
Money market and savings deposits	788,006	3,482	0.44 %	651,855	7,827	1.20 %	601,808	5,579	0.93 %
Time deposits	641,647	9,102	1.42 %	635,451	12,205	1.92 %	536,964	7,419	1.39 %
Total interest-bearing deposits	1,910,703	13,597	0.71 %	1,620,406	21,915	1.35 %	1,381,631	14,288	1.04 %
Borrowings	177,204	816	0.46 %	21,526	319	1.48 %	32,852	675	2.05 %
Subordinated debt	39,301	2,334	5.94 %	39,216	2,341	5.97 %	9,822	603	6.16 %
Total interest-bearing liabilities	2,127,208	16,747	0.79 %	1,681,148	24,575	1.46 %	1,424,305	15,566	1.10 %
Noninterest-bearing deposits	571,282			343,611			285,729		
Other liabilities	23,775			15,852			10,172		
Total liabilities	2,722,265			2,040,611			1,720,266		
Stockholders' equity	341,170			298,729			242,451		
Total liabilities and stockholders' equity	\$ 3,063,435			\$ 2,339,340			\$ 1,962,717		
Net interest income, taxable equivalent		\$ 101,438			\$ 84,334			\$ 76,834	
Interest rate spread			3.41 %			3.64 %			4.22 %
Tax equivalent net interest margin			3.61 %			3.95 %			4.43 %
Percentage of average interest-earning assets to average interest-bearing liabilities			132.21 %			127.14 %			122.16 %
Percentage of average equity to average assets			11.14 %			12.77 %			12.35 %

- (1) Loans include PPP loans with an average balance of \$201.5 million for the year ended December 31, 2020. No PPP loans are included in years ending December 31, 2019 and 2018. Loan fees included in loan income was \$9.8 million, \$3.2 million, and \$2.7 million for 2020, 2019 and 2018, respectively. Loan fee income for the year ended December 31, 2020, includes \$5.9 million accretion of loan fees on PPP loans. No loan fees on PPP loans are included in years ended December 31, 2019 and 2018.
- (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% in 2020, 2019 and 2018. The taxable-equivalent adjustment was \$572 thousand, \$454 thousand and \$180 thousand for 2020, 2019 and 2018, respectively.

### Rate and Volume Analysis

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. Net interest income, taxable equivalent, increased by \$17.1 million between the years ended December 31, 2020 and 2019 and by \$7.5 million

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between the years ended December 31, 2019 and 2018. The following is an analysis of the changes in net interest income comparing the changes attributable to rates and those attributable to volumes (*in thousands*):

	2020 Compared to 2019			2019 Compared to 2018		
	Increase (decrease) due to			Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
<b>Interest-earning assets:</b>						
Loans <sup>1</sup>	\$ (13,644)	\$ 24,805	\$ 11,161	\$ (4,301)	\$ 18,824	\$ 14,523
Loans held for sale	(9)	158	149			—
Taxable Securities	(693)	(173)	(866)	111	(334)	(223)
Tax-exempt securities <sup>2</sup>	(985)	954	(31)	(227)	1,432	1,205
Federal funds and other earning assets	(5,214)	4,077	(1,137)	(133)	1,137	1,004
<b>Total interest-earning assets</b>	<b>(20,545)</b>	<b>29,821</b>	<b>9,276</b>	<b>(4,550)</b>	<b>21,059</b>	<b>16,509</b>
<b>Interest-bearing deposits:</b>						
Interest-bearing demand deposits	(1,706)	836	(870)	115	478	593
Money market and savings deposits	(5,980)	1,635	(4,345)	1,783	465	2,248
Time deposits	(3,222)	119	(3,103)	3,417	1,369	4,786
<b>Total interest-bearing deposits</b>	<b>(10,908)</b>	<b>2,590</b>	<b>(8,318)</b>	<b>5,315</b>	<b>2,312</b>	<b>7,627</b>
<b>Borrowings:</b>						
Borrowings	(2,632)	3,129	497	(223)	(133)	(356)
Subordinated debt	(12)	5	(7)	(73)	1,811	1,738
<b>Total interest-bearing liabilities</b>	<b>(13,552)</b>	<b>5,724</b>	<b>(7,828)</b>	<b>5,019</b>	<b>3,990</b>	<b>9,009</b>
<b>Net interest income</b>	<b>\$ (6,993)</b>	<b>\$ 24,097</b>	<b>\$ 17,104</b>	<b>\$ (9,569)</b>	<b>\$ 17,069</b>	<b>\$ 7,500</b>

Changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume times the previous rate while rate change is change in rate times the previous volume. The change attributed to rates and volumes (change in rate times change in volume) is considered above as a change in volume.

**Noninterest Income**

Noninterest income is an important component of our total revenues. A significant portion of our noninterest income is associated service charges on deposit accounts and mortgage banking fees.

The following table provides a summary of noninterest income for the periods presented (*dollars in thousands*):

	Year ended December 31,		
	2020	2019	2018
Service charges on deposit accounts	\$ 3,403	\$ 2,902	\$ 2,416
Gain on sale of securities, net	6	34	1
Mortgage banking	3,875	1,566	1,433
Investment services	1,566	946	389
Insurance commissions	1,850	—	—
Interchange and debit card transaction fees, net	2,413	628	573
Merger termination fee	—	6,400	—
Other	2,313	2,839	1,772
<b>Total noninterest income</b>	<b>\$ 15,426</b>	<b>\$ 15,315</b>	<b>\$ 6,584</b>

2020 compared to 2019

Noninterest income increased \$111 thousand to \$15.4 million in 2020, compared to \$15.3 million in 2019. The change in noninterest income primarily resulted from the following:

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- Increase in service charges on deposit accounts of \$501 thousand, related to the PFG acquisition, deposit growth and transaction volume;
- Increase in mortgage banking of \$2.3 million, from increased volume due to low rate environment;
- Increase in investment services of \$620 thousand, stemming from increased production from personnel hires in 2019;
- Addition of insurance commissions of \$1.8 million from an insurance agency acquired in the PFG acquisition;
- Increase in net interchange and debit card transactions fees, net of \$1.8 million, related to the increased volume from the PFG acquisition and deposit growth; and
- Decrease in merger termination fee of \$6.4 million, recognized in the second quarter of 2019.

2019 compared to 2018

Noninterest income increased \$8.7 million to \$15.3 million in 2019, compared to \$6.9 million in 2018. The change in noninterest income primarily resulted from the following:

- Increase in merger termination fee of \$6.4 million, received in connection with the termination of the Entegra merger in the second quarter of 2019;
- Increase in services charges on deposit accounts of \$486 thousand, related to deposit growth and transaction volume;
- Increase in investment services of \$557 thousand, stemming from increased production from personnel hires during 2019;
- Increase in other income of \$1.1 million, primarily due to a one-time payment received from the Alabama Department of Economic and Community Affairs ("ADECA"). ADECA was a program that guaranteed 50% of a loan's obligation for loans approved and originated through the program. In September 2019, the ADECA program was dissolved and total proceeds of \$1.2 million was received in October 2019, of which \$720 thousand was recorded as noninterest income, and the remainder of the proceeds were held in reserve for potential future losses on specific identified loans that were covered in the program.

*Noninterest Expense*

The following table provides a summary of noninterest expense for the periods presented (*dollars in thousands*):

	Year ended December 31,		
	2020	2019	2018
Salaries and employee benefits	\$ 42,911	\$ 36,635	\$ 30,630
Occupancy and equipment	8,348	6,716	6,303
FDIC insurance	1,190	140	786
Other real estate and loan related expense	2,050	1,320	2,913
Advertising and marketing	834	983	873
Data processing	2,281	1,995	1,906
Professional services	2,958	2,375	2,694
Amortization of intangibles	1,740	1,368	976
Software as service contracts	2,195	2,195	2,054
Merger related and restructuring expenses	4,565	3,219	3,781
Other	7,647	6,205	6,041
Total noninterest expense	<u>\$ 76,719</u>	<u>\$ 63,151</u>	<u>\$ 58,957</u>

2020 compared to 2019

Noninterest expense increased \$13.6 million to \$76.7 million in 2020, compared to \$63.2 million in 2019. The change in noninterest expense primarily resulted from the following:

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- Increase in salary and employee benefits of \$6.3 million, due to overall franchise growth, including the acquisition of PFG;
- Increase of occupancy and equipment of \$1.6 million, associated with ongoing infrastructure and facilities added to accommodate our growth in operations and the additional branches from the PFG acquisition;
- Increase in FDIC insurance of \$1.1 million, related to increase in assets due to overall assets growth stemming from our acquisition of PFG, deposit growth and production of PPP loans. The Company recognized a credit during 2019 from the FDIC, as result of the FDIC Insurance exceeding 1.38% of insured deposits as of June 30, 2019;
- Increase in other real and loan related expense of \$730 thousand, primarily attributable to increased activity in loan related production;
- Increase in professional services of \$583 thousand, due to increased volume of services performed;
- Increase in merger related and restructuring expenses of \$1.3 million, from the acquisition of PFG and the consolidation and termination of two leased properties; and
- Increase in other noninterest expense of \$1.4 million, due to overall franchise growth.

### 2019 compared to 2018

Noninterest expense increased \$4.2 million to \$63.2 million in 2019, compared to \$59.0 million in 2018. The change in noninterest expense primarily resulted from the following:

- Increase in salary and employee benefits of \$6.0 million, primarily because of a full year of post-merger expenses from the mergers in 2018 and to the lesser extent, the increased hiring of talented associates during 2019;
- Increase in occupancy and equipment of \$413 thousand, primarily because of a full year of post-merger expenses from the mergers in 2018; and
- Decrease in FDIC insurance of \$646 thousand, The Company recognized a credit in the third quarter of 2019 from the FDIC, as a result of the FDIC Insurance exceeding 1.38% of insured deposits as of June 30, 2019.

### **Income Taxes**

#### 2020 compared to 2019

In 2020, income tax expense totaled \$6.6 million compared to \$6.9 million a year ago. The effective tax rate was approximately 21.2% for 2020 compared to 20.6% a year ago.

#### 2019 compared to 2018

In 2019, income tax expense totaled \$6.9 million compared to \$3.2 million in 2018. In 2019 the effective tax rate was 20.6%, which was lower than normal due to a tax benefit of \$1.1 million associated with a program the State of Tennessee manages for community investment loans. The Bank strategically originated loans in this program to reduce its 2019 tax liability. In 2018 the effective tax rate was 15.2%, which was also lower than normal due to a tax benefit from options exercised in the prior period.

### **Loan Portfolio Composition**

Our loans represent the largest portion of our earning assets, substantially greater than the securities portfolio or any other asset category, and the quality and diversification of the loan portfolio is an important consideration when reviewing our financial condition. The Company had total net loans outstanding, including organic and purchased loans, of approximately \$2.36 billion at December 31, 2020 and \$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 acquisitions, increased by \$469.8 million, or 31.1%, from December 31, 2019, to \$1.98 billion at December 31, 2020. Included in the growth was \$300.8 million of PPP loans that

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were originated and funded during the second and third quarters of 2020. Total net deferred fees associated with the PPP loans during the year of 2020 was approximately \$11.0 million and \$5.9 million was accreted into income during the second, third and fourth quarters of 2020.

Purchased Loans

Purchased non-credit impaired loans of \$350.7 million at December 31, 2020 increased by \$1.7 million from December 31, 2019. Since December 31, 2019, our net purchased credit impaired (“PCI”) loans increased by \$5.2 million to \$32.0 million at December 31, 2020. The increase in purchased non-credit impaired loans and PCI loans is related to the acquisition of PFG and offset by maturities, paydowns and payoffs.

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

	2020				
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total
Commercial real estate-mortgage	\$ 807,913	\$ 188,940	\$ 16,123	\$ 1,012,976	42.5 %
Consumer real estate-mortgage	313,582	120,090	10,258	443,930	18.6 %
Construction and land development	259,622	13,105	5,348	278,075	11.7 %
Commercial and industrial	607,212	26,926	308	634,446	26.6 %
Consumer and other	9,250	3,539	27	12,816	0.5 %
Total gross loans receivable, net of deferred fees	1,997,579	352,600	32,064	2,382,243	100.0 %
Allowance for loan losses	(16,154)	\$ (1,883)	(309)	(18,346)	
Total loans, net	\$ 1,981,425	\$ 350,717	\$ 31,755	\$ 2,363,897	

	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	47.7 %
Consumer real estate-mortgage	295,915	115,026	6,541	417,482	22.0 %
Construction and land development	210,421	12,747	4,458	227,626	12.0 %
Commercial and industrial	306,521	30,147	407	337,075	17.8 %
Consumer and other	2,817	6,760	326	9,903	0.5 %
Total gross loans receivable, net of deferred fees	1,521,365	349,040	26,987	1,897,392	100.0 %
Allowance for loan losses	(10,087)	—	(156)	(10,243)	
Total loans, net	\$ 1,511,278	\$ 349,040	\$ 26,831	\$ 1,887,149	

	2018				
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total
Commercial real estate-mortgage	\$ 555,914	\$ 286,431	\$ 17,682	\$ 860,027	48.4 %
Consumer real estate-mortgage	222,979	173,584	8,712	405,275	22.8 %
Construction and land development	134,232	49,061	4,602	187,895	10.6 %
Commercial and industrial	234,877	70,820	2,557	308,254	17.4 %
Consumer and other	8,627	4,577	605	13,809	0.8 %
Total gross loans receivable, net of deferred fees	1,156,629	584,473	34,158	1,775,260	100.0 %
Allowance for loan losses	(8,275)	—	—	(8,275)	
Total loans, net	\$ 1,148,354	\$ 584,473	\$ 34,158	\$ 1,766,985	

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	2017				
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total
Commercial real estate-mortgage	\$ 387,313	\$ 237,772	\$ 17,903	\$ 642,988	48.6 %
Consumer real estate-mortgage	173,988	112,019	7,450	293,457	22.2 %
Construction and land development	97,116	33,173	5,120	135,409	10.2 %
Commercial and industrial	135,271	101,958	858	238,087	18.0 %
Consumer and other	5,925	5,929	1,463	13,317	1.0 %
Total gross loans receivable, net of deferred fees	799,613	490,851	32,794	1,323,258	100.0 %
Allowance for loan losses	(5,844)	—	(16)	(5,860)	
Total loans, net	<u>\$ 793,769</u>	<u>\$ 490,851</u>	<u>\$ 32,778</u>	<u>\$ 1,317,398</u>	

	2016				
	Organic Loans	Purchased Non-Credit Impaired Loans	Purchased Credit Impaired Loans	Total Amount	% of Gross Total
Commercial real estate-mortgage	\$ 297,689	\$ 102,576	\$ 14,943	\$ 415,208	51.0 %
Consumer real estate-mortgage	135,923	42,875	9,004	187,802	23.1 %
Construction and land development	108,390	7,801	1,678	117,869	14.5 %
Commercial and industrial	68,235	15,219	1,568	85,022	10.5 %
Consumer and other	6,786	689	—	7,475	0.9 %
Total gross loans receivable, net of deferred fees	617,023	169,160	27,193	813,376	100.0 %
Allowance for loan losses	(5,105)	—	—	(5,105)	
Total loans, net	<u>\$ 611,918</u>	<u>\$ 169,160</u>	<u>\$ 27,193</u>	<u>\$ 808,271</u>	

**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 (*dollars 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	\$ 108,485	\$ 434,009	\$ 470,482	\$ 1,012,976	\$ 683,243	\$ 221,248
Consumer real estate-mortgage	33,030	165,799	245,101	443,930	206,494	204,406
Construction and land development	69,316	106,102	102,657	278,075	100,071	108,688
Commercial and industrial	82,576	474,268	77,602	634,446	506,487	45,383
Consumer and other	4,863	7,312	641	12,816	7,680	273
Total Loans	<u>\$ 298,270</u>	<u>\$ 1,187,490</u>	<u>\$ 896,483</u>	<u>\$ 2,382,243</u>	<u>\$ 1,503,975</u>	<u>\$ 579,998</u>

**Nonaccrual, Past Due, and Restructured Loans**

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. Loans are generally classified as nonaccrual if they are past due for a period of 90 days or more, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or as partially charged off, the loan is generally classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance of interest and principal by the borrower in accordance with the contractual terms.

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PCI loans with common risk characteristics are grouped in pools at acquisition and performance is based on our ability to reasonably estimate the amount and timing of future cash flows rather than a borrower's ability to repay contractual loan amounts. Since we are able to reasonably estimate the amount and timing of future cash flows on the Company's PCI loan pools, none of these loans have been identified as nonaccrual.

While a loan is classified as nonaccrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to the principal outstanding, except in the case of loans with scheduled amortizations where the payment is generally applied to the oldest payment due. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Assets acquired as a result of foreclosure are recorded at estimated fair value in other real estate owned. Any excess of cost over estimated fair value at the time of foreclosure is charged to the allowance for loan losses. Valuations are periodically performed on these properties, and any subsequent write-downs are charged to earnings. Routine maintenance and other holding costs are included in noninterest expense.

Loans, excluding pooled PCI loans, are classified as troubled debt restructurings ("TDR") by the Company when certain modifications are made to the loan terms and concessions are granted to the borrowers due to financial difficulty experienced by those borrowers. The Company grants concessions by (1) reduction of the stated interest rate for the remaining original life of the debt or (2) extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk. The Company does not generally grant concessions through forgiveness of principal or accrued interest. The Company's policy with respect to accrual of interest on loans restructured in a TDR follows relevant supervisory guidance. That is, if a borrower has demonstrated performance under the previous loan terms and shows capacity to perform under the restructured loan terms, continued accrual of interest at the restructured interest rate is likely. If a borrower was materially delinquent on payments prior to the restructuring but shows the capacity to meet the restructured loan terms, the loan will likely continue as nonaccrual until there is demonstrated performance under new terms. Lastly, if the borrower does not perform under the restructured terms, the loan is placed on non-accrual status. The Company closely monitors these loans and ceases accruing interest on them if we believe that the borrowers may not continue performing based on the restructured note terms.

PCI loans that were classified as TDRs prior to acquisition are not classified as TDRs by the Company after the acquisition date. Subsequent modification of a PCI loan accounted for in a pool that would otherwise meet the definition of a TDR is not reported, or accounted for, as a TDR since pooled PCI loans are excluded from the scope of TDR accounting. A PCI loan not accounted for in a pool would be reported, and accounted for, as a TDR if modified in a manner that meets the definition of a TDR after the acquisition date.

Nonperforming loans as a percentage of gross loans, net of deferred fees, was 0.24% as of December 31, 2020, and 0.18% as of December 31, 2019, respectively. Total nonperforming assets as a percentage of total assets as of December 31, 2020 totaled 0.31% compared to 0.21% as of December 31, 2019. PCI loans that are included in loan pools are reclassified at acquisition to accrual status and thus are not included as nonperforming assets. In 2020, there was \$30 thousand in interest income recognized on nonaccrual and restructured loans compared to the \$358 thousand in gross interest income that would have been recognized if the loans had been current in accordance with their original terms.

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The following table summarizes the Company's nonperforming assets as of December 31 for the periods presented (*dollars in thousands*):

	2020	2019	2018	2017	2016
Nonaccrual loans	\$ 5,633	\$ 2,743	\$ 2,696	\$ 1,764	\$ 1,415
Accruing loans past due 90 days or more	149	607	584	1,509	699
Total nonperforming loans	5,782	3,350	3,280	3,273	2,114
Other real estate owned	4,619	1,757	2,495	3,254	2,386
Total nonperforming assets	\$ 10,401	\$ 5,107	\$ 5,775	\$ 6,527	\$ 4,500
Restructured loans not included above	\$ 257	\$ 61	\$ 116	\$ 41	\$ 166

**Potential Problem Loans**

At December 31, 2020 problem loans amounted to approximately \$6.6 million or 0.27% 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**

The allowance for loan losses is an estimate of probable incurred losses in the loan portfolio. Loans are charged-off against the allowance when management believes a loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance for loan losses. Management's methodology for estimating the allowance balance consists of several key elements, which include specific allowances on individual impaired loans and the formula driven allowances on pools of loans with similar risk characteristics. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

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 portfolios, past loan loss experience, known and inherent risks in the portfolio, the views of the Bank's regulators, adverse situations that may affect the borrower's 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.

We maintain the allowance at a level that we deem appropriate to adequately cover the probable losses inherent in the loan portfolio. As of December 31, 2020, and December 31, 2019, our allowance for loan losses was \$18.3 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 in 2020 as compared to 2019 is primarily attributable to the ongoing economic uncertainties related to the COVID-19 pandemic. Also, during 2020, the Company updated the Allowance for Loan Loss policy to increase the additional basis points allowed for the unallocated risk portion from 100 basis points to 125 basis points. In addition, the Company added two new qualitative factors; 1.) based on the percentage of COVID modified loans to total loans and 2.) the average number of COVID cases within our footprint. The qualitative factors were also expanded to provide additional granularity related to the hospitality and restaurant industries which are most impacted by the pandemic within our footprint. The changes in our economic factors and the addition of the COVID modified factors equated to an additional \$8.3 million in reserve. Our allowance for loan loss as a percentage of total loans has increased from 0.54% at December 31, 2019, to 0.77% at December 31, 2020. This increase is primarily due to the economic uncertainties related to the COVID-19 pandemic and the modified and additional qualitative factors, as discussed above for 2020.

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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. At December 31, 2020, the remaining accretable yield was approximately \$16.9 million. These loans are subject to the same allowance methodology as our legacy portfolio. The calculated allowance is compared to the remaining fair value discount to determine if additional provisioning should be recognized. Also, at the end of 2020, the outstanding principal balance on PCI loans was \$45.0 million and the carrying value was \$32.1 million, for a net difference of \$12.9 million in discounts. At December 31, 2020, there was an allowance on PCI loans of \$309 thousand. The judgments and estimates associated with our allowance determination are described in Note 1 in the “Notes to Consolidated Financial Statements.”

The following table sets forth, the allocation of the allowance to types of loans as well as the unallocated portion as of December 31 for each of the past five years and the percentage of loans in each category to total loans (*in thousands*):

	2020		2019		2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate-mortgage	\$ 7,579	42.5 %	\$ 4,508	47.7 %	\$ 3,639	48.4 %	\$ 2,465	48.6 %	\$ 2,369	51.0 %
Consumer real estate-mortgage	3,471	18.6 %	2,576	22.0 %	1,789	22.8 %	1,596	22.2 %	1,382	23.1 %
Construction and land development	2,076	11.7 %	1,127	12.0 %	795	10.6 %	521	10.2 %	717	14.5 %
Commercial and industrial	5,107	26.6 %	1,957	17.8 %	1,746	17.4 %	1,062	18.0 %	520	10.5 %
Consumer and other	113	0.5 %	75	0.5 %	306	0.8 %	216	1.0 %	117	0.9 %
Total allowance for loan losses	<u>\$ 18,346</u>	<u>100.0 %</u>	<u>\$ 10,243</u>	<u>100.0 %</u>	<u>\$ 8,275</u>	<u>100.0 %</u>	<u>\$ 5,860</u>	<u>100.0 %</u>	<u>\$ 5,105</u>	<u>100.0 %</u>

The increase in the overall allowance for loan losses is due to the economic uncertainties related to the COVID-19 pandemic and the modified and additional qualitative factors, as discussed above for 2020. 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 loans were approximately \$237 thousand at December 31, 2020, compared to \$475 thousand at December 31, 2019. Additional information on the allocation of the allowance between performing and impaired loans is provided in Note 5 - Loans and Allowance for Loan Losses to our audited consolidated financial statements.

***Analysis of the Allowance for Loan Losses***

The following is a summary of changes in the allowance for loan losses for each of the years in the five-year period ended December 31, and the ratio of the allowance for loan losses to total loans as of the end of each period (*in thousands*):

	2020	2019	2018	2017	2016
Balance at beginning of period	\$ 10,243	\$ 8,275	\$ 5,860	\$ 5,105	\$ 4,354
Provision for loan losses	8,683	2,599	2,936	783	788
Charged-off loans:					
Commercial real estate-mortgage	—	(36)	(38)	—	—
Consumer real estate-mortgage	(23)	(4)	(275)	(111)	(102)
Construction and land development	—	—	—	—	(14)
Commercial and industrial	(420)	(659)	(177)	(24)	(35)
Consumer and other	(398)	(344)	(370)	(141)	(155)
Total charged-off loans	<u>(841)</u>	<u>(1,043)</u>	<u>(860)</u>	<u>(276)</u>	<u>(306)</u>
Recoveries of previously charged-off loans:					
Commercial real estate-mortgage	19	65	2	8	45
Consumer real estate-mortgage	39	164	100	99	76
Construction and land development	2	8	9	13	22
Commercial and industrial	114	77	72	67	58
Consumer and other	87	98	156	61	68
Total recoveries of previously charged-off loans	<u>261</u>	<u>412</u>	<u>339</u>	<u>248</u>	<u>269</u>
Net loan charge-offs	<u>(580)</u>	<u>(631)</u>	<u>(521)</u>	<u>(28)</u>	<u>(37)</u>
Balance at end of period	<u>\$ 18,346</u>	<u>\$ 10,243</u>	<u>\$ 8,275</u>	<u>\$ 5,860</u>	<u>\$ 5,105</u>
Ratio of allowance for loan losses to total loans outstanding at end of period	<u>0.77 %</u>	<u>0.54 %</u>	<u>0.47 %</u>	<u>0.44 %</u>	<u>0.63 %</u>
Ratio of net loan charge-offs to average loans outstanding for the period	<u>0.03 %</u>	<u>0.03 %</u>	<u>0.03 %</u>	<u>— %</u>	<u>— %</u>

**Investment Portfolio**

Our investment portfolio is the second largest component of our interest earning assets. The portfolio serves the following purposes: (i) to optimize the Bank's income consistent with the investment portfolio's liquidity and risk objectives; (ii) to balance market and credit risks of other assets and the Bank's liability structure; (iii) to profitably deploy funds which are not needed to fulfill loan demand, deposit redemptions or other liquidity purposes; and (iv) provide collateral which the Bank is required to pledge against public funds.

Our investment portfolio is carried at fair market value, and consists primarily of Federal agency bonds, mortgage-backed securities, state and municipal securities and other debt securities. Our investment portfolio increased from \$178.3 million at December 31, 2019 to \$215.6 million December 31, 2020, primarily as a result of the PFG acquisition and the appreciation of current portfolio holdings as market rates decreased throughout 2020. There was a shift in investment concentrations as the Bank migrated from mortgage-backed securities to municipal and agency securities to improve the portfolio structure by reducing the call optionality of the portfolio. Our investment portfolio decreased from \$201.7 million in 2018 to \$178.3 million in 2019, primarily as a result of liquidating certain investments to provide more funding for our loan production. Our investment to asset ratio has decreased from 8.9% at December 31, 2018, to 7.3% at December 31, 2019, and then decreased further to 6.5% at December 31, 2020. Over the last several years the ratio of investments to our total assets has decreased, primarily due to our loan growth outpacing deposit growth and reliance on brokered deposits.

The following table shows the amortized cost of the Company's securities. In 2020, 2019, and 2018, all investment securities were classified as available for sale (*dollars in thousands*):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
U.S. Government-sponsored enterprises (GSEs)	\$ 30,526	\$ 19,015	\$ 44,117
Municipal securities	89,644	63,792	55,248
Other debt securities	25,019	3,481	977
Mortgage-backed securities	66,425	91,531	103,875
Total securities	<u>\$ 211,614</u>	<u>\$ 177,819</u>	<u>\$ 204,217</u>

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 December 31, 2020 (*dollars in thousands*). The composition and maturity/repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

	<b>Maturity By Years</b>				
	<u>1 or Less</u>	<u>1 to 5</u>	<u>5 to 10</u>	<u>Over 10</u>	<u>Total</u>
U.S. Government agencies	\$ —	\$ 132	\$ 7,342	\$ 23,052	\$ 30,526
State and political subdivisions	4,906	3,043	5,295	76,399	89,643
Other debt securities	—	984	23,536	500	25,020
Mortgage-backed securities	—	3,167	12,881	50,377	66,425
Total securities	<u>\$ 4,906</u>	<u>\$ 7,326</u>	<u>\$ 49,054</u>	<u>\$ 150,328</u>	<u>\$ 211,614</u>
Weighted average yield <sup>(1)</sup>	1.90 %	1.27 %	3.54 %	2.58 %	2.75 %

<sup>1</sup>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, Individual Retirement Accounts ("IRAs") and certificates of deposit ("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

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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 December 31, 2020, brokered deposits represented approximately 2.2% of total deposits.

The following table summarizes the average balances outstanding and average interest rates for each major category of deposits for 2020, 2019 and 2018 (*dollars in thousands*):

	2020			2019			2018		
	Average Balance	% of Total	Average Rate	Average Balance	% of Total	Average Rate	Average Balance	% of Total	Average Rate
Noninterest-bearing demand	\$ 571,282	23.0 %	—	\$ 343,611	17.5 %	—	\$ 285,729	17.1 %	—
Interest-bearing demand	481,050	19.4 %	0.21 %	333,100	17.0 %	0.57 %	242,859	14.6 %	0.53 %
Money market and savings	788,006	31.7 %	0.44 %	651,855	33.2 %	1.20 %	601,808	36.1 %	0.93 %
Time deposits	641,647	25.9 %	1.42 %	635,451	32.4 %	1.92 %	536,964	32.2 %	1.39 %
Total average deposits	<u>\$ 2,481,985</u>	<u>100.0 %</u>	<u>0.55 %</u>	<u>\$ 1,964,017</u>	<u>100.0 %</u>	<u>1.12 %</u>	<u>\$ 1,667,360</u>	<u>100.0 %</u>	<u>0.86 %</u>

During 2020 average deposits increased in all categories. The Company believes its deposit product offerings are properly structured to attract and retain core low-cost deposit relationships. The average cost of deposits was 0.55% in 2020 compared to 1.12% in 2019 as deposit costs increased with rising interest rates.

Total deposits as of December 31, 2020 were \$2.8 billion, which was an increase of \$758.0 million from December 31, 2019.

The increase was primarily from the completed acquisition of PFG and deposits related to the PPP loans. As of December 31, 2020, the Company had outstanding time deposits under \$250,000 of \$412.0 million, time deposits over \$250,000 of \$138.5 million, and a time deposit fair value adjustment of \$336 thousand. The following table summarizes the maturities of time deposits \$250,000 or more as of December 31, 2020 (*dollars in thousands*):

	December 31, 2020
Three months or less	\$ 34,219
Three to six months	27,733
Six to twelve months	45,238
More than twelve months	31,329
Total	<u>\$ 138,519</u>

***Borrowings and Subordinated Debt***

Other than deposits, 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 downstreaed as Tier 1 capital to the Bank. Total borrowings at December 31, 2020 totaled \$81.2 million, which is an increase of \$49.6 million from December 31, 2019, the increase primarily consisted of a \$50.0 million advance from the FHLB during 2020. Short-term borrowings, included in borrowings, totaled \$5.8 million at December 31, 2020 and \$6.2 million at December 31, 2019 and consisted entirely of securities sold under repurchase agreements. Long-term debt totaled \$39.3 million at December 31, 2020 and December 31, 2019, respectively and consisted entirely of subordinated debt. For more information regarding our borrowings and subordinated debt, see "Part I - Item 1. Consolidated Financial Statements - Note 9 – Borrowings and Line of Credit and Note 10 – Subordinated Debt."

***Liquidity***

Liquidity refers to the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs, all at a reasonable cost. We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements. We manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our shareholders.

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Our liquidity position is supported by management of liquid assets and access to alternative sources of funds. Our liquid assets include cash, interest-bearing deposits in correspondent banks, federal funds sold, and fair value of unpledged investment securities. Other available sources of liquidity include wholesale deposits, and additional borrowings from correspondent banks, FHLB advances, and the Federal Reserve discount window.

Our short-term and long-term liquidity requirements are primarily met through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, and increases in customer deposits. Other alternative sources of funds will supplement these primary sources to the extent necessary to meet additional liquidity requirements on either a short-term or long-term basis.

As part of our liquidity management strategy, we open federal funds lines with our correspondent banks. As of December 31, 2020, we had \$69.6 million of unsecured federal funds lines with no funds advanced. In addition, we have access to the Federal Reserve's discount window in the amount \$149.2 million with no borrowings outstanding as of December 31, 2020. The Federal Reserve discount window line is collateralized by a pool of commercial real estate loans and commercial and industrial loans totaling \$258.8 million as of December 31, 2020.

At December 31, 2020, we had two FHLB advances outstanding totaling \$75 million. For more information regarding the FHLB advances, see "Part I - Item 1. Consolidated Financial Statements - Note 9 – Borrowings and Line of Credit." Based on the values of loans pledged as collateral, we had \$35.5 million of additional borrowing availability with the FHLB as of December 31, 2020. We also maintain relationships in the capital markets with brokers to issue certificates of deposit and money market accounts.

The Company has 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 December 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

### ***Capital Requirements***

The Bank is required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy. 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 December 31, 2020, and 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. While the Company believes that it has sufficient capital to withstand an extended economic recession brought about by COVID-19, its reported and regulatory capital ratios could be adversely impacted in future periods. For more information regarding our capital, leverage and total capital ratios, see "Part I - Item 1. Consolidated Financial Statements - Note 15 - Regulatory Matters."

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The table below summarizes the capital requirements applicable to the Bank in order to be considered “well-capitalized” from a regulatory perspective, as well as the Bank’s capital ratios as of December 31, 2020 and 2019. The Bank exceeded all regulatory capital requirements and was considered to be “well-capitalized” as of December 31, 2020 and 2019. As of December 31, 2020, the FDIC categorized the Bank as well-capitalized under the prompt corrective action framework. There have been no conditions or events since December 31, 2020 that management believes would change this classification. While the Company believes that it has sufficient capital to withstand an extended economic recession brought about by COVID-19, its reported and regulatory capital ratios could be adversely impacted in future periods.

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provisions <sup>1</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2020</b>						
SmartFinancial:						
Total Capital (to Risk Weighted Assets)	\$ 329,431	14.07 %	\$ 187,303	8.00 %	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	271,739	11.61 %	140,477	6.00 %	N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	271,739	11.61 %	105,358	4.50 %	N/A	N/A
Tier 1 Capital (to Average Assets) <sup>2</sup>	271,739	8.70 %	125,002	4.00 %	N/A	N/A
SmartBank:						
Total Capital (to Risk Weighted Assets)	\$ 317,660	13.57 %	\$ 187,294	8.00 %	\$ 234,117	10.00 %
Tier 1 Capital (to Risk Weighted Assets)	299,314	12.78 %	140,470	6.00 %	187,294	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)	299,314	12.78 %	105,353	4.50 %	152,176	6.50 %
Tier 1 Capital (to Average Assets) <sup>2</sup>	299,314	9.58 %	124,969	4.00 %	156,212	5.00 %
<b>December 31, 2019</b>						
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 %

<sup>1</sup>The prompt corrective action provisions are applicable at the Bank level only.

<sup>2</sup>Average assets for the above calculations were based on the most recent quarter

**Contractual Obligations**

The following tables present, as of December 31, 2020 our significant fixed and determinable contractual obligations (*dollars in thousands*):

	<b>As of December 31, 2020, payments due in</b>				
	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Operating leases	\$ 804	\$ 1,108	\$ 714	\$ 3,032	\$ 5,658
Time deposits	389,097	127,228	33,350	487	550,162
Securities sold under agreement to repurchase	5,803	—	—	—	5,803
FHLB advances and other borrowings	45	97	106	75,148	75,396
Subordinated debt	—	—	—	40,000	40,000
Total	<u>\$ 395,749</u>	<u>\$ 128,433</u>	<u>\$ 34,170</u>	<u>\$ 118,667</u>	<u>\$ 677,019</u>

**Off-Balance Sheet Arrangements**

At December 31, 2020, we had \$476.8 million of pre-approved but unused lines of credit and \$5.3 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. Additional information about our off-balance sheet risk exposure is presented in Note 14-*Commitments and Contingencies* to our audited consolidated financial statements.

**Critical Accounting Policies**

The Company has identified accounting policies that are the most critical to fully understand and evaluate its reported financial results and require management's most difficult, subjective or complex judgments. Management has reviewed the following critical accounting policies and related disclosures with the Audit Committee of the Board of Directors. These policies along with a brief discussion of the material implications of the uncertainties of each policy are below. For a full description of these critical accounting policies, see Note 1 in the "Notes to Consolidated Financial Statements."

***Allowance for loan losses*** – In establishing the allowance we take into account reserves required for impaired loans, historical charge-offs for loan types, and a variety of qualitative factors including economic outlook, portfolio concentrations, and changes in portfolio credit quality. Many of the qualitative factors are measurable but there is also a level of subjective assumptions. If those assumptions change it could have a material impact on the level of the allowance required and as a result the earnings of the Company.

***Fair values for acquired assets and assumed liabilities*** – Assets and liabilities acquired are recorded at their respective fair values as of the date of the acquisition. The excess of the purchase price over the net estimated fair values of the acquired assets and liabilities is allocated to identifiable intangible assets with the remaining excess allocated to goodwill. Goodwill has an indefinite useful life and is evaluated for impairment annually, or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. As of December 31, 2020, there was approximately \$74.1 million in goodwill. Considering the recent economic conditions resulting from the COVID-19 pandemic the Company performed a Step 1 goodwill impairment test (which compares the fair value of a reporting unit with its carrying amount, including goodwill). The results indicated that there was no impairment as of December 31, 2020.

***Cash flow estimates on purchased credit-impaired loans*** – Purchase credit impaired loans do not have traditional loan yields and interest income; instead they have accretable yield and accretion. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized in interest income as accretion over the remaining life of the loan when there is reasonable expectation about the amount and timing of such

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cash flows. The amount expected to be accreted divided by the accretable discount is the accretable yield. Cash flow estimates are re-evaluated quarterly. If the estimated cash flows increase then the accretable yield over the life of the loan increases. If, however, the estimated cash flows decrease then impairment is generally recognized immediately.

*Valuation of Other Real Estate Owned* – Other real estate owned properties are initially recorded at fair value less selling costs. If the fair value decreases the assets are written down and are periodically reviewed for further impairment, if needed.

*Valuation of deferred tax assets*- Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not that the tax position will be realized or sustained upon examination. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. As of December 31, 2020, there were approximately \$4.4 million in net deferred tax assets.

*Evaluation of investment securities for other than temporary impairment*- We evaluate investment securities for other than temporary impairment taking into account if we do not have the intent to sell a debt security prior to recovery and it is more likely than not that we will not have to sell the debt security prior to recovery, the security would not be considered other than temporarily impaired unless a credit loss has occurred in the security. Temporary impairments are recognized on the balance sheet in other comprehensive income / loss. If a security becomes permanently impaired the impairment expense would be recognized and reduce earnings. As of December 31, 2020, there was approximately \$201 thousand in gross unrealized losses on investment securities that were classified as temporarily impaired.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***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

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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
	Increase +	Decrease -	Next 12 Months
<b>December 31, 2020:</b>			
An instantaneous, parallel rate increase or decrease of the following at the beginning of the third quarter:			
± 100 basis points	5.72%	(1.44)%	8%
± 200 basis points	11.80%	(2.34)%	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:

	Current Estimated Instantaneous Rate Change		Maximum Percentage Decline in Economic Value of Equity from the Economic Value of Equity at Currently Prevailing Interest Rates
	Increase +	Decrease -	
<b>December 31, 2020:</b>			
Instantaneous, Parallel Change in Prevailing Interest Rates Equal to:			
±100 basis points	6.97%	(6.35)%	10%
±200 basis points	12.38%	5.61%	15%

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

Each of the above analyses may not, on its own, be an accurate indicator of how our net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates.

In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps and floors) which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates. Our ALCO reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios as part of its responsibility to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies.

*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.

*Impact of Inflation and Changing Prices*

As a financial institution, we have an asset and liability make-up that is distinctly different from that of an entity with substantial investments in plant and inventory, because the major portions of a commercial bank's assets are monetary in nature. As a result, our performance may be significantly influenced by changes in interest rates. Although we, and the banking industry, are more affected by changes in interest rates than by inflation in the prices of goods and services, inflation is a factor that may influence interest rates. However, the frequency and magnitude of interest rate fluctuations do not necessarily coincide with changes in the general inflation rate. Inflation does affect operating expenses in that personnel expenses and the cost of supplies and outside services tend to increase more during periods of high inflation.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**SMARTFINANCIAL, INC. AND SUBSIDIARY**

*Report on Consolidated Financial Statements*

**For the years ended December 31, 2020 and 2019**

## SmartFinancial, Inc. and Subsidiary

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of SmartFinancial, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and affected by the Company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

As permitted by guidance provided by the Staff of U.S. Securities and Exchange Commission, the scope of management's assessment of internal control over financial reporting as of December 31, 2020, has excluded Progressive Financial Group, Inc., acquired on March 1, 2020, which represented 8.47% and 7.31% of consolidated revenue (total interest income and total noninterest income) and consolidated total assets, respectively, as of December 31, 2020.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the internal control over financial reporting as of December 31, 2020. In making this assessment, we used the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our evaluation included a review of the documentation of controls, evaluations of the design of the internal control system and tests of the effectiveness of internal controls.

Based on our assessment, management concluded that as of December 31, 2020, SmartFinancial, Inc.'s internal control over financial reporting is effective based on those criteria.

Dixon Hughes Goodman LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, is included herein.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of SmartFinancial, Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of SmartFinancial, Inc. and Subsidiary (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### Allowance for Loan Losses

As described in Notes 1 and 5 – Loans and Allowance for Loan Losses to the consolidated financial statements, the Company's allowance for loan losses ("allowance") balance was \$18.3 million on gross loans of \$2.4 billion as of December 31, 2020, and consisted of general reserves on loans collectively evaluated for impairment and specific reserves on loans individually evaluated for impairment. The allowance is based upon management's evaluation of the uncollectability of the loan portfolio in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. The general component covers non-impaired loans and is based on the Company's historical loss experience adjusted

for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan.

We identified the allowance as a critical audit matter. The principal consideration for that determination was the subjectivity of the assumptions that management utilized in determining and applying the qualitative factors in the allowance model. This required a higher degree of auditor judgment and subjectivity due to the nature and extent of audit evidence and effort required to address this matter.

The primary audit procedures we performed to address this critical audit matter included, among others:

- We evaluated the design and tested the operating effectiveness of key controls relating to the Company's allowance, including controls over the completeness and accuracy of the data used within the model, identification of impaired loans, the determination of qualitative factors, and the precision of management's review and approval of the allowance model and resulting estimate.
- We evaluated the reasonableness of management's application of qualitative factor adjustments to the allowance, including the comparison of factors considered by management to historical trends, as well as evaluated the appropriateness and level of the qualitative factor adjustments.
- We assessed the reasonableness of the qualitative factors by comparing information utilized by management to internal and external evidence and assessing the appropriateness of data utilized by management in developing the assumptions.
- We assessed the overall trends in credit quality by comparing the Company's year-over-year and quarterly changes in qualitative factors and the allowance.
- We performed analytical procedures on the overall level and various components of the allowance, including general reserves and specific reserves, as well as credit quality to ensure movement of the allowance in a directionally consistent manner relative to credit quality indicators and changes in the Company's loan portfolio and the economy.

#### *Business Combinations – Fair Value of Acquired Loans*

As described in Note 2 – Business Combinations to the consolidated financial statements, on March 1, 2020 the Company completed its acquisition of Progressive Financial Group, Inc. ("PFG") for total consideration of \$34.4 million. Determination of the acquisition date fair values of the assets acquired and liabilities assumed in a business combination requires management to make significant estimates and assumptions, especially for the fair value of the loan portfolio acquired. In determining the fair value of acquired loans, management must determine whether or not acquired loans have evidence of credit deterioration at acquisition, the amount and timing of cash flows expected to be collected, and market discount rates, among other assumptions. Changes in these assumptions could have a significant impact on the fair value of the acquired loans and ultimately the amount of goodwill recorded.

We identified the acquisition date fair value of acquired loans as a critical audit matter. The principal considerations for that determination were the subjectivity of the auditor judgement involved in evaluating management's identification of loans with evidence of credit deterioration, the need for specialized skills in evaluating the development and application of subjective assumptions in estimated cash flows, and the complexity of the acquired loan portfolio.

The primary audit procedures we performed to address this critical audit matter included, among others:

- We evaluated the design and tested the operating effectiveness of controls over the Company's assumptions regarding credit losses of the acquired portfolio provided to the third party specialist and the Company's review and approval of the results of valuations provided by the third party.
- We evaluated the significant assumptions and methods utilized in developing the fair value of the loan portfolio, including assessment of significant assumptions, and evaluated whether the assumptions used were reasonable considering past acquisitions and current market participant views and other factors.
- We utilized an internal valuation specialist to assist in testing the Company's calculation of fair value of the loan portfolio acquired and the reasonableness of certain significant assumptions including, among others, prepayment speeds and discount rates.

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- We tested the completeness and accuracy of loans determined to have credit deterioration at acquisition and evaluated the reasonableness of the criteria utilized by management in the determination.
- We tested the completeness and accuracy of the data utilized in the fair value determination by the third party specialist, including reconciling the loan portfolio to the loan trial balance and confirming a sample of loans with the borrowers.

**/s/ DIXON HUGHES GOODMAN LLP**

We have served as the Company's auditor since 2018.

**Atlanta, Georgia  
March 16, 2021**

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of SmartFinancial, Inc.

### Opinion on Internal Control Over Financial Reporting

We have audited SmartFinancial, Inc. and Subsidiary's (the "Company") internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of December 31, 2020 and 2019, and for each of the two years in the period ended December 31, 2020, and our report dated March 16, 2021, expressed an unqualified opinion on those consolidated financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As described in Management's Annual Report on Internal Control Over Financial Reporting, the scope of management's assessment of internal control over financial reporting as of December 31, 2020 has excluded Progressive Financial Group, Inc. acquired on March 1, 2020. We have also excluded Progressive Financial Group, Inc. from the scope of our audit of internal control over financial reporting. Progressive Financial Group, Inc. represented 8.47 percent and 7.31 percent of consolidated revenues (total interest income and total noninterest income) and consolidated total assets, respectively, for the year ended December 31, 2020.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ **DIXON HUGHES GOODMAN LLP**

**Atlanta, Georgia**

**March 16, 2021**

**SmartFinancial, Inc. and Subsidiary**  
**Consolidated Financial Statements**  
**Consolidated Balance Sheets**  
December 31, 2020 and 2019  
*(Dollars in thousands, except per share data)*

	2020	2019
<b>ASSETS:</b>		
Cash and due from banks	\$ 50,460	\$ 33,205
Interest-bearing deposits with banks	364,846	127,329
Federal funds sold	66,413	23,437
Total cash and cash equivalents	481,719	183,971
Securities available-for-sale, at fair value	215,634	178,348
Other investments	14,794	12,913
Loans held for sale	11,721	5,856
Loans	2,382,243	1,897,392
Less: Allowance for loan losses	(18,346)	(10,243)
Loans, net	2,363,897	1,887,149
Premises and equipment, net	72,682	59,433
Other real estate owned	4,619	1,757
Goodwill and core deposit intangible, net	86,471	77,193
Bank owned life insurance	31,215	24,949
Other assets	22,197	17,554
Total assets	<u>\$ 3,304,949</u>	<u>\$ 2,449,123</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Deposits:</b>		
Noninterest-bearing demand	\$ 685,957	\$ 364,155
Interest-bearing demand	649,129	380,234
Money market and savings	919,631	623,284
Time deposits	550,498	679,541
Total deposits	2,805,215	2,047,214
Borrowings	81,199	31,623
Subordinated debt	39,346	39,261
Other liabilities	22,021	18,278
Total liabilities	2,947,781	2,136,376
<b>Shareholders' equity:</b>		
Preferred stock, \$1 par value; 2,000,000 shares authorized; No shares issued and outstanding	—	—
Common stock, \$1 par value; 40,000,000 shares authorized; 15,107,214 and 14,008,233 shares issued and outstanding, respectively	15,107	14,008
Additional paid-in capital	252,693	232,732
Retained earnings	87,185	65,839
Accumulated other comprehensive income	2,183	168
Total shareholders' equity	357,168	312,747
Total liabilities and shareholders' equity	<u>\$ 3,304,949</u>	<u>\$ 2,449,123</u>

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

**SmartFinancial, Inc. and Subsidiary**  
**Consolidated Statements of Income**  
For the years ended December 31, 2020 and 2019  
*(Dollars in thousands, except per share data)*

	2020	2019
<b>Interest income:</b>		
Loans, including fees	\$ 112,312	\$ 101,002
Securities available-for-sale:		
Taxable	2,423	3,289
Tax-exempt	1,369	1,518
Federal funds sold and other earning assets	1,509	2,646
Total interest income	<u>117,613</u>	<u>108,455</u>
<b>Interest expense:</b>		
Deposits	13,597	21,915
Borrowings	816	319
Subordinated debt	2,334	2,341
Total interest expense	<u>16,747</u>	<u>24,575</u>
Net interest income	100,866	83,880
<b>Provision for loan losses</b>	8,683	2,599
<b>Net interest income after provision for loan losses</b>	<u>92,183</u>	<u>81,281</u>
<b>Noninterest income:</b>		
Service charges on deposit accounts	3,403	2,902
Gain on sale of securities	6	34
Mortgage banking	3,875	1,566
Investment services	1,566	946
Insurance commissions	1,850	—
Interchange and debit card transaction fees, net	2,413	628
Merger termination fee	—	6,400
Other	2,313	2,839
Total noninterest income	<u>15,426</u>	<u>15,315</u>
<b>Noninterest expense:</b>		
Salaries and employee benefits	42,911	36,635
Occupancy and equipment	8,348	6,716
FDIC insurance	1,190	140
Other real estate and loan related expense	2,050	1,320
Advertising and marketing	834	983
Data processing	2,281	1,995
Professional services	2,958	2,375
Amortization of intangibles	1,740	1,368
Software as service contracts	2,195	2,195
Merger related and restructuring expenses	4,565	3,219
Other	7,647	6,205
Total noninterest expense	<u>76,719</u>	<u>63,151</u>
<b>Income before income tax expense</b>	30,890	33,445
Income tax expense	6,558	6,897
<b>Net income</b>	<u>\$ 24,332</u>	<u>\$ 26,548</u>
<b>Earnings per common share:</b>		
Basic	<u>\$ 1.63</u>	<u>\$ 1.90</u>
Diluted	<u>1.62</u>	<u>1.89</u>
<b>Weighted average common shares outstanding:</b>		
Basic	14,955,423	13,953,497
Diluted	15,019,175	14,046,366

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

**SmartFinancial, Inc. and Subsidiary**  
**Consolidated Statements of Comprehensive Income**  
For the years ended December 31, 2020 and 2019  
(Dollars in thousands)

	<b>2020</b>	<b>2019</b>
Net income	\$ 24,332	\$ 26,548
Other comprehensive income:		
Unrealized holding gains (losses) and hedge effects on securities available-for-sale arising during the period	3,495	3,092
Tax effect	(914)	(802)
Reclassification adjustment for realized (gains) losses included in net income	(6)	(34)
Tax effect	2	9
Unrealized gains (losses) on securities available-for-sale arising during the period, net of tax	<u>2,577</u>	<u>2,265</u>
Unrealized gains (losses) on fair value municipal security hedges	(761)	905
Tax effect	<u>199</u>	<u>(237)</u>
Unrealized gains (losses) on fair value municipal security hedge instruments arising during the period, net of tax	<u>(562)</u>	<u>668</u>
Total other comprehensive income	<u>2,015</u>	<u>2,933</u>
Comprehensive income	<u>\$ 26,347</u>	<u>\$ 29,481</u>

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

**SmartFinancial, Inc. and Subsidiary**  
**Consolidated Statements of Changes in Stockholders' Equity**  
For the years ended December 31, 2020 and 2019  
*(Dollars in thousands, except per share data)*

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount				
<b>Balance, December 31, 2018</b>	13,933,504	\$ 13,933	\$ 231,852	\$ 39,991	\$ (2,765)	\$ 283,011
Net income	—	—	—	26,548	—	26,548
Other comprehensive gain	—	—	—	—	2,933	2,933
Common stock issued pursuant to:						
Stock awards	3,298	3	61	—	—	64
Exercise of stock options	31,931	32	342	—	—	374
Restricted stock	39,500	40	(40)	—	—	—
Stock compensation expense	—	—	517	—	—	517
Common stock dividend (\$0.05 per share)	—	—	—	(700)	—	(700)
<b>Balance, December 31, 2019</b>	<u>14,008,233</u>	<u>\$ 14,008</u>	<u>\$ 232,732</u>	<u>\$ 65,839</u>	<u>\$ 168</u>	<u>\$ 312,747</u>
Net income	—	—	—	24,332	—	24,332
Other comprehensive gain	—	—	—	—	2,015	2,015
Common stock issued pursuant to:						
Exercise of stock options	33,556	33	306	—	—	339
Restricted stock, net of forfeitures	38,113	38	(38)	—	—	—
Shareholders of Progressive Financial Group, Inc.	1,292,578	1,293	23,254	—	—	24,547
Stock compensation expense	—	—	482	—	—	482
Common stock dividend (\$0.20 per share)	—	—	—	(2,986)	—	(2,986)
Repurchases of common stock	(265,266)	(265)	(4,043)	—	—	(4,308)
<b>Balance, December 31, 2020</b>	<u>15,107,214</u>	<u>\$ 15,107</u>	<u>\$ 252,693</u>	<u>\$ 87,185</u>	<u>\$ 2,183</u>	<u>\$ 357,168</u>

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

**SmartFinancial, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2020 and 2019  
*(Dollars in thousands)*

	2020	2019
<b>Cash flows from operating activities:</b>		
Net income	\$ 24,332	\$ 26,548
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,021	4,300
Accretion of fair value purchase accounting adjustments, net	(4,457)	(5,712)
Provision for loan losses	8,683	2,599
Stock compensation expense	482	517
Gain from redemption and sale of securities available-for-sale	(6)	(34)
Deferred income tax expense	(1,219)	780
Increase in cash surrender value of bank owned life insurance	(707)	(568)
Loss on disposal of fixed assets	—	35
Net (gains) losses from sale of other real estate owned	187	(17)
Net gains from sale of loans	(3,875)	(1,566)
Origination of loans held for sale	(143,022)	(69,056)
Proceeds from sales of loans held for sale	141,031	66,744
Net change in:		
Accrued interest receivable	(2,456)	(347)
Accrued interest payable	(156)	398
Other assets	4,529	(2,106)
Other liabilities	(298)	7,351
Net cash provided by operating activities	<u>29,069</u>	<u>29,866</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of securities available-for-sale	11,759	16,515
Proceeds from maturities and calls of securities available-for-sale	49,633	15,555
Proceeds from paydowns of securities available-for-sale	26,562	14,258
Proceeds from sales of other investments	34	—
Purchases of securities available-for-sale	(94,146)	(17,601)
Purchases of other investments	(1,223)	(1,414)
Net increase in loans	(293,964)	(117,216)
Purchases of premises and equipment	(5,439)	(6,269)
Proceeds from sale of other real estate owned	1,314	1,395
Net cash and cash equivalents received from business combination	46,132	—
Net cash used in investing activities	<u>(259,338)</u>	<u>(94,777)</u>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	485,396	124,698
Net increase (decrease) in securities sold under agreements to repurchase	(381)	(5,572)
Proceeds from borrowings	339,675	153,581
Repayment borrowings	(289,718)	(139,385)
Cash dividends paid	(2,986)	(700)
Issuance of common stock	339	438
Repurchase of common stock	(4,308)	—
Net cash provided by financing activities	<u>528,017</u>	<u>133,060</u>
<b>Net change in cash and cash equivalents</b>	<u>297,748</u>	<u>68,149</u>
Cash and cash equivalents, beginning of period	183,971	115,822
<b>Cash and cash equivalents, end of period</b>	<u>\$ 481,719</u>	<u>\$ 183,971</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$ 16,903	\$ 24,177
Cash paid during the period for income taxes	8,654	6,765
Cash received from income tax refunds	48	561
<b>Noncash investing and financing activities:</b>		
Acquisition of real estate through foreclosure	971	639
Transfer from bank premises to other real estate owned	1,221	—
Change in goodwill due to acquisitions	8,521	(473)
Initial recognition of operating lease right-of-use assets	484	6,081
Initial recognition of operating lease liabilities	484	6,081

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

## **SmartFinancial, Inc. and Subsidiary**

### *Notes to Consolidated Financial Statements*

December 31, 2020 and 2019

#### **Note 1. Summary of Significant Accounting Policies**

##### *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 Florida panhandle. The Company's primary deposit products are 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:*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### *Accounting Estimates:*

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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 other real estate owned and deferred taxes, other than temporary impairments of securities, the fair value of financial instruments, goodwill, and business combination elements (Day 1 and Day 2 Valuation).

##### *Cash and Cash Equivalents:*

For purposes of reporting consolidated cash flows, cash and due from banks includes cash on hand, cash items in process of collection and amounts due from banks. Cash and cash equivalents also includes interest-bearing deposits in banks and federal funds sold. Cash flows from loans, federal funds sold, securities sold under agreements to repurchase and deposits are reported net.

The in cash or on deposit Bank is required to maintain average balances with the Federal Reserve Bank. During 2020 the Federal Reserve Bank suspended reserve requirements to provide relief related to the COVID-19 pandemic, thus the Bank did not have a reserve requirement at December 31, 2020. The reserve requirement was \$49.2 million at December 31, 2019.

##### *Securities:*

Management has classified all securities as available-for-sale. Securities available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates securities quarterly for other than temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other than temporarily impaired unless a credit loss has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will

## **SmartFinancial, Inc. and Subsidiary**

### *Notes to Consolidated Financial Statements*

December 31, 2020 and 2019

recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financial transactions. These agreements are recorded at the amount at which the securities were acquired or sold plus accrued interest. It is the Company's policy to take possession of securities purchased under resale agreements. The market value of these securities is monitored, and additional securities are obtained when deemed appropriate to ensure such transactions are adequately collateralized. The Company also monitors its exposure with respect to securities sold under repurchase agreements, and a request for the return of excess securities held by the counterparty is made when deemed appropriate.

#### Other Investments:

The Company is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews restricted investments for impairment based on the ultimate recoverability of the cost basis in these stocks.

#### Loans Held for Sale:

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Gains and losses on sales of loans held for sale are included in the Consolidated Statements of Income in mortgage banking.

Loans held for sale are sold to investors with best effort intent and ability to sell loans as long as they meet the underwriting standards of the potential investor.

#### Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less deferred fees and costs on originated loans and the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs of consumer and installment loans are recognized at the time the loan is placed on the books. Loan origination fees for all other loans are deferred and recognized as an adjustment of the yield over the life of the loan using the straight-line method without anticipating prepayments.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet the contractual terms of the obligation payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Unsecured loans are typically charged off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance, unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms for a period of not less than six months.

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#### Acquired Loans:

Acquired loans are those acquired in business combinations by the Company or Bank. The fair values of acquired loans with evidence of credit deterioration, Purchased Credit Impaired loans (“PCI loans”), are recorded net of a nonaccretable discount and accretable discount. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized in interest income over the remaining life of the loan when there is reasonable expectation about the amount and timing of such cash flows. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the nonaccretable discount, which is included in the carrying amount of acquired loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent significant increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reclassification of the difference from nonaccretable to accretable with a positive impact on the accretable discount. Acquired loans are initially recorded at fair value at acquisition date. Accretable discounts related to certain fair value adjustments are accreted into income over the estimated lives of the loans.

The Company accounts for PCI loans acquired in the acquisition using the expected cash flows method of recognizing discount accretion based on the acquired loans’ expected cash flows. Management recasts the estimate of cash flows expected to be collected on each acquired impaired loan pool periodically. If the present value of expected cash flows for a pool is less than its carrying value, an impairment is recognized by an increase in the allowance for loan losses and a charge to the provision for loan losses. If the present value of expected cash flows for a pool is greater than its carrying value, any previously established allowance for loan losses is reversed and any remaining difference increases the accretable yield which will be taken into interest income over the remaining life of the loan pool. Purchased performing loans are recorded at fair value, including a credit discount. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio at the time of purchase. Such estimated credit losses are recorded as nonaccretable discounts in a manner similar to purchased impaired loans. The fair value discount other than for credit loss is accreted as an adjustment to yield over the estimated lives of the loans. A provision for loan losses is recorded for any deterioration in these loans subsequent to the acquisition.

#### Allowance for Loan Losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower’s ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on the Company’s historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. As part of the risk management program, an independent review is performed on the loan portfolio according to policy, which supplements management's assessment of the loan portfolio and the allowance for loan losses. The result of the independent review is reported directly to the Audit Committee of the Board of Directors. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company's homogeneous loan pools include consumer real estate loans, commercial real estate loans, construction and land development loans, commercial and industrial loans, and consumer and other loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors.

#### *Troubled Debt Restructurings:*

The Company designates loan modifications as Troubled Debt Restructurings ("TDRs") when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

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#### *Other Real Estate Owned:*

Other real estate owned acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less selling costs. Any write-down to fair value less cost to sell, at the time of transfer to other real estate owned is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent write-downs to the value are expensed. The amount of residential real estate where physical possession had been obtained included with in other real estate owned assets at December 31, 2020 and 2019 was \$26 thousand and \$215 thousand, respectively. There were five residential real estate loans totaling \$384 thousand in process of foreclosure at December 31, 2020 and none at December 31, 2019.

#### *Premises and Equipment:*

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

#### *Goodwill and Intangible Assets:*

Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business combinations. Goodwill has an indefinite useful life and is evaluated for impairment annually, or more frequently if events and circumstances indicate that the asset might be impaired.

Other acquired intangible assets with finite lives, such as core deposit intangibles, are initially recorded at fair value and amortized over their estimated useful lives. Intangible assets are evaluated for impairment when events or changes in circumstances indicate a potential impairment accelerated basis typically between five to twelve years over their exist.

#### *Transfers of Financial Assets:*

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

#### *Derivative Instruments:*

The Company applies hedge accounting to certain interest rate derivatives entered into for risk management purposes. In accordance with ASC Topic 815, Derivatives and Hedging, all derivative instruments are recorded on the accompanying consolidated balance sheet at their respective fair values. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognized in earnings in the period of change.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current

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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.

#### Revenue Recognition

*Service charges on deposit accounts* – These deposit account-related fees represent monthly account maintenance and transaction-based service fees such as overdraft fees, stop payment fees and wire transfer fees. For account maintenance services, revenue is recognized at the end of the statement period when our performance obligation has been satisfied. All other revenues from transaction-based services are recognized at a point in time when the performance obligation has been completed.

*Investment services* – These primarily represent sales commissions on various product offerings, transaction fees and asset management fees. The performance obligation for investment services is the provision of services to place annuity products issued by the counterparty to investors and the provision of services to manage the client's assets, including brokerage custodial and other management services. Revenue from investment services is recognized over the period in which services are performed and is based on a percentage of the value of the assets under management/administration.

*Insurance commissions* – These represent commissions earned on the issuance of insurance products and services. The performance obligation is generally satisfied upon the issuance of the insurance policy and revenue is recognized when the commission payment is remitted by the insurance carrier or policy holder depending on whether the billing is performed by the insurance agency or the carrier.

*Interchange and debit card transaction fees, net* – These represent interchange fees from customer debit and credit card transactions earned when a cardholder engages in a transaction with a merchant as well as fees charged to merchants for providing them the ability to accept and process the debit and credit card transaction. Revenue is recognized when the performance obligation has been satisfied, which is upon completion of the card transaction. Additionally, as the Bank is acting as an agent for the customer and transaction processor, costs associated with cardholder and merchant services transactions are netted against the fee income.

*Other* – This consists of several forms of recurring revenue such as income earned on changes in the cash surrender value of bank-owned life insurance. For the remaining immaterial transactions, revenue is recognized when, or as, the performance obligation is satisfied.

#### Advertising Costs:

The Company expenses all advertising and marketing costs as incurred.

#### Income Taxes:

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if,

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based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

#### *Stock-Based Compensation Plans:*

The Company has stock options, restricted stock awards and stock appreciation rights under stock-based compensation plans, which are described in more detail in Note 13-Employee Benefits. The plans have been accounted for under the accounting guidance (FASB ASC 718, *Compensation - Stock Compensation*) which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and stock or other stock based awards.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market value of the Company's common stock at the date of grant is used for restrictive stock awards and stock grants.

#### *Comprehensive Income:*

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as (1) unrealized gains and losses on available-for-sale securities and (2) unrealized gains and losses on effective portions of fair value security hedges, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

#### *Business Combinations:*

Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method of accounting, acquired assets and assumed liabilities are included with the acquirer's accounts as of the date of acquisition at estimated fair value, with any excess of purchase price over the fair value of the net assets acquired (including identifiable intangible assets) capitalized as goodwill. In the event that the fair value of the net assets acquired exceeds the purchase price, an acquisition gain is recorded for the difference in consolidated statements of income for the period in which the acquisition occurred. An intangible asset is recognized as an asset apart from goodwill when it arises from contractual or other legal rights or if it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. In addition, acquisition-related costs and restructuring costs are recognized as period expenses as incurred. Estimates of fair value are subject to refinement for a period not to exceed one year from acquisition date as information relative to acquisition date fair values becomes available.

#### *Earnings Per Common 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.

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#### Operating Segments:

The Company's chief operating decision maker primarily manages operations and assesses financial performance on a Company-wide basis. However, in addition to the discrete financial information that is provided for the Company as a whole, financial information is also provided for the wealth management services, insurance services and mortgage origination segments, respectively. While the chief operating decision maker uses the financial information related to these segments to analyze business performance and allocate resources, these segments do not meet the quantitative threshold under GAAP to be considered a reportable segment. As such, these operating segments, along with the banking operations segment, are aggregated into a single reportable operating segment in the Consolidated Financial Statements. No revenues are derived from foreign countries or from external customers that comprise more than 10% of the Company's revenues.

#### Recently Issued Not Yet Effective Accounting Pronouncements:

The following is a summary of recent authoritative pronouncements not yet in effect 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 an 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, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference London Interbank Offered Rate ("LIBOR"). It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is implementing a transition plan to identify and modify its loans and other financial instruments, including certain indebtedness, with attributes that are either directly or indirectly influenced by LIBOR. The Company is assessing ASU 2020-04 and its impact on the transition away from LIBOR for its loan and other financial instruments.

#### 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

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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.

As of January 1, 2020, the Company adopted ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): *Simplifying the Test for Goodwill Impairment*. The ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The Company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The adoption ASU 2017-04 did not have a material impact on the Company's consolidated financial statements.

In August 2020, the SEC issued amendments to its disclosure rules to modernize the requirements in Regulation S-K, Item 101 on description of a business, Item 103 on legal proceedings, and Item 105 on risk factors. These amendments are intended to improve the readability of disclosures, reduce repetition, and eliminate immaterial information, thereby simplifying compliance for registrants and making disclosures more meaningful for investors. The amendments to the disclosure requirements related to a registrant's description of its business and risk factors are intended to expand the use of a principles-based approach that gives registrants more flexibility to tailor disclosures. The amendments to the disclosure requirements related to legal proceedings continue to reflect the current, more prescriptive approach because those requirements depend less on a registrant's specific characteristics. Further, additional human capital disclosures are required as part of the amendments to the description of the business. The final rule was effective on November 9, 2020, and the Company has incorporated the applicable changes as part of our annual filing on this Form 10-K.

#### Operating, Accounting and Reporting Considerations related to COVID-19:

The COVID-19 pandemic has negatively impacted the global economy. In response to this crisis, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion to stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief through the COVID-19 pandemic. Some of the provisions applicable to the Company include, but are not limited to:

- *Accounting for Loan Modifications* – Section 4013 of the CARES Act provides that a financial institution may elect to suspend (1) the requirements under GAAP for certain loan modifications that would otherwise be categorized as a TDR and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. See Note 5 *Loans and Allowance for Loan Losses* for more information.
- *Paycheck Protection Program* - The CARES Act established the Paycheck Protection Program ("PPP"), an expansion of the Small Business Administration's ("SBA") 7(a) loan program and the Economic Injury Disaster Loan Program ("EIDL"), administered directly by the SBA. The Company is a participant in the PPP. See Note 5 *Loans and Allowance for Loan Losses* for more information.
- *Mortgage Forbearance* - Under the CARES Act, through the earlier of December 31, 2020, or the termination date of the COVID-19 national emergency, a borrower with a federally backed mortgage loan that is experiencing financial hardship due to COVID-19 may request a forbearance. A multifamily borrower with a federally backed multifamily mortgage loan that was current as of February 1, 2020, and is experiencing financial hardship due to

## SmartFinancial, Inc. and Subsidiary

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COVID-19 may request forbearance on the loan for up to 30 days, with up to two additional 30-day periods at the borrower's request.

Also in response to the COVID-19 pandemic, the Board of Governors of the Federal Reserve System ("FRB"), the Federal Deposit Insurance Corporation ("FDIC"), the National Credit Union Administration ("NCUA"), the Office of the Comptroller of the Currency ("OCC"), and the Consumer Financial Protection Bureau ("CFPB"), in consultation with the state financial regulators (collectively, the "agencies") issued a joint interagency statement (issued March 22, 2020; revised statement issued April 7, 2020). Some of the provisions applicable to the Company include, but are not limited to:

- *Accounting for Loan Modifications* - Loan modifications that do not meet the conditions of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. The agencies confirmed with FASB staff 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 TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or insignificant delays in payment. See Note 5 *Loans and Allowance for Loan Losses* for more information.
- *Past Due Reporting* - With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to COVID-19 as past due because of the deferral. A loan's payment date is governed by the due date stipulated in the legal agreement. If a financial institution agrees to a payment deferral, these loans would not be considered past due during the period of the deferral.
- *Nonaccrual Status and Charge-offs* - During short-term COVID-19 modifications, these loans generally should not be reported as nonaccrual or as classified.

The Company began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. The Company offered deferral options of: 1) three months deferral of payment and then three months of interest only, 2) three months of interest only, 3) three months deferral of payment, 4) six months of interest only. These modifications generally meet the criteria of both Section 4013 of the CARES Act and the joint interagency statement, and therefore, the Company does not account for such loan modifications as TDRs. On August 3, 2020, the Federal Financial Institutions Examination Council on behalf of its members (collectively "the FFIEC members") issued a joint statement on additional loan accommodations related to COVID-19. The joint statement clarifies that for loan modifications in which Section 4013 is being applied, subsequent modifications could also be eligible under Section 4013. To be eligible, each loan modification must be (1) related to the COVID event; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. All of the Company's loan modifications granted under Section 4013 of the CARES Act are in compliance with the aforementioned FFIEC requirements. Accordingly, the Company does not account for such loan modifications as TDRs.

#### Reclassifications:

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

**SmartFinancial, Inc. and Subsidiary**

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**Note 2. Business Combinations**

*Acquisition of Progressive Financial Group, 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 PFG common stock was converted into and cancelled in exchange to the right to receive \$474.82 in cash, and 62.3808 shares of the Company’s common stock. The Company issued 1,292,578 shares of its 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 \$8.5 million, representing the intangible value of PFG’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 also established two intangible assets related to the insurance agency acquired as part of the PFG acquisition; 1.) Customer relationships of \$1.1 million, amortizing straight-line over 60 months (5 years), 2.) Tradename of \$63 thousand, amortizing straight-line over 120 months (10 years).

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

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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	Initial Fair value adjustments	Subsequent Adjustments	As recorded by the Company
<b>Assets:</b>				
Cash & cash equivalents	\$ 55,971	\$ —	\$ —	\$ 55,971
Investment securities available-for-sale	27,054	203	—	27,257
Restricted investments	692	—	—	692
Loans	191,672	(3,691)	—	187,981
Allowance for loan losses	(2,832)	2,832	—	—
Premises and equipment, net	15,681	(2,919)	—	12,762
Bank owned life insurance	5,560	—	—	5,560
Deferred tax asset, net	—	813	78	891
Intangibles	—	1,370	1,127	2,497
Other real estate owned	3,695	(100)	(1,424)	2,171
Interest Receivable	1,061	(280)	—	781
Prepays	375	(174)	—	201
Goodwill	231	(231)	—	—
Other assets	1,881	—	—	1,881
Total assets acquired	<u>\$ 301,041</u>	<u>\$ (2,177)</u>	<u>\$ (219)</u>	<u>\$ 298,645</u>
<b>Liabilities:</b>				
Deposits	\$ 271,276	\$ —	\$ —	\$ 271,276
Time deposit premium	—	729	—	729
Payables and other liabilities	776	—	—	776
Total liabilities assumed	<u>272,052</u>	<u>729</u>	<u>—</u>	<u>272,781</u>
Excess of assets assumed over liabilities assumed	<u>\$ 28,989</u>			
Aggregate fair value adjustments		<u>\$ (2,906)</u>	<u>\$ (219)</u>	
Total identifiable net assets				<u>25,864</u>
Consideration transferred:				
Cash				9,838
Common stock issued (1,292,578 shares)				24,547
Total fair value of consideration transferred				<u>34,385</u>
Goodwill				<u>\$ 8,521</u>

The following table presents additional information related to the purchased credit impaired loans (ASC 310-30) of the acquired loan portfolio at the acquisition date (*in thousands*):

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

The following table discloses the impact of the merger with PFG since the acquisition date through the year ended December 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.

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Merger-related costs from the PFG acquisition for the year ended December 31, 2020, were \$4.6 million and have been excluded from the pro-forma information presented below. The actual results and pro-forma information were as follows (*in thousands*):

	<b>Year Ended December 31,</b>	
	<b>Revenue</b>	<b>Net Income</b>
<b>2020:</b>		
Actual PFG results included in statement of income since acquisition date	\$ 10,227	\$ 3,581
Supplemental consolidation pro-forma as if PFG had been acquired January 1, 2019	119,334	27,436
<b>2019:</b>		
Supplemental consolidation pro-forma as if PFG had been acquired January 1, 2019	\$ 115,479	\$ 27,952

*Termination of Entegra Merger*

The Company elected to terminate, effective April 23, 2019, the Agreement and Plan of Merger dated January 15, 2019 (the “Merger Agreement”), among the Company, Entegra, and CT Merger Sub, Inc. Entegra elected to terminate the Merger Agreement in order to enter into a definitive merger agreement with a large North Carolina-based financial institution that made a competing offer to acquire Entegra, an offer that SmartFinancial chose not to match.

Under the terms of the Merger Agreement, the Company received a termination fee of \$6.4 million.

**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 73 thousand antidilutive shares for the year ended December 31, 2020. There were no antidilutive shares for the year ended December 31, 2019.

The following is a summary of the basic and diluted earnings per share computation (*dollars in thousands, except per share data*):

	<b>2020</b>	<b>2019</b>
<b>Basic earnings per share computation:</b>		
Net income available to common stockholders	\$ 24,332	\$ 26,548
Average common shares outstanding – basic	14,955,423	13,953,497
Basic earnings per share	\$ 1.63	\$ 1.90
<b>Diluted earnings per share computation:</b>		
Net income available to common stockholders	\$ 24,332	\$ 26,548
Average common shares outstanding – basic	14,955,423	13,953,497
Incremental shares from assumed conversions:		
Stock options and restricted stock	63,752	92,869
Average common shares outstanding - diluted	15,019,175	14,046,366
Diluted earnings per common share	\$ 1.62	\$ 1.89

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**Note 4. Securities**

The amortized cost and fair value of securities available-for-sale at December 31, 2020 and 2019 are summarized as follow (*in thousands*):

	<b>December 31, 2020</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Government-sponsored enterprises (GSEs)	\$ 30,526	\$ 10	\$ (6)	\$ 30,530
Municipal securities	89,644	2,345	—	91,989
Other debt securities	25,019	112	(13)	25,118
Mortgage-backed securities (GSEs)	66,425	1,754	(182)	67,997
<b>Total</b>	<b>\$ 211,614</b>	<b>\$ 4,221</b>	<b>\$ (201)</b>	<b>\$ 215,634</b>

	<b>December 31, 2019</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
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
<b>Total</b>	<b>\$ 177,819</b>	<b>\$ 1,063</b>	<b>\$ (534)</b>	<b>\$ 178,348</b>

At December 31, 2020 and 2019, securities with a carrying value totaling approximately \$80.2 million and \$92.3 million, respectively, were pledged to secure public funds and securities sold under agreements to repurchase.

The Company has entered into various fair value hedging transactions to mitigate the impact of changing interest rates on the fair values of available for sale securities. See Note 18 - *Derivatives* for disclosure of the gains and losses recognized on derivative instruments and the cumulative fair value hedging adjustments to the carrying amount of the hedged securities.

Proceeds from sale and maturities and calls of securities available for sale, gross gains and gross losses were as follows (*in thousands*):

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Proceeds from sales	\$ 11,759	\$ 16,515
Gross gains	\$ 7	\$ 35
Gross losses	\$ (1)	\$ (1)
<b>Proceeds from maturities and calls</b>	<b>\$ 49,633</b>	<b>\$ 15,555</b>

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The amortized cost and estimated market value of securities by contractual maturity, are shown below (*in thousands*). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2020	
	Amortized Cost	Fair Value
Due in one year or less	\$ 4,907	\$ 4,949
Due from one year to five years	4,159	4,174
Due from five years to ten years	36,172	36,442
Due after ten years	99,951	102,072
	<u>145,189</u>	<u>147,637</u>
Mortgage-backed securities	66,425	67,997
Total	<u>\$ 211,614</u>	<u>\$ 215,634</u>

The following tables present the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities available-for-sale have been in a continuous unrealized loss position, as of December 31, 2020 and 2019 (*in thousands*):

	As of December 31, 2020								
	Less than 12 Months			12 Months or Greater			Total		
	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities
U.S. Government-sponsored enterprises (GSEs)	\$ 15,510	\$ (5)	3	\$ 132	\$ (1)	1	\$ 15,642	\$ (6)	4
Municipal securities	—	—	—	—	—	—	—	—	—
Other debt securities	1,495	(5)	1	977	(8)	1	2,472	(13)	2
Mortgage-backed securities (GSEs)	9,790	(87)	6	6,083	(95)	3	15,873	(182)	9
Total	<u>\$ 26,795</u>	<u>\$ (97)</u>	<u>10</u>	<u>\$ 7,192</u>	<u>\$ (104)</u>	<u>5</u>	<u>\$ 33,987</u>	<u>\$ (201)</u>	<u>15</u>

	As of December 31, 2019								
	Less than 12 Months			12 Months or Greater			Total		
	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities
U.S. Government-sponsored enterprises (GSEs)	\$ 2,972	\$ (43)	2	\$ 5,987	\$ (13)	2	\$ 8,959	\$ (56)	4
Municipal securities	3,656	(16)	4	527	(3)	1	4,183	(19)	5
Other debt securities	—	—	—	947	(33)	1	947	(33)	1
Mortgage-backed securities (GSEs)	13,208	(194)	10	19,988	(232)	31	33,196	(426)	41
Total	<u>\$ 19,836</u>	<u>\$ (253)</u>	<u>16</u>	<u>\$ 27,449</u>	<u>\$ (281)</u>	<u>35</u>	<u>\$ 47,285</u>	<u>\$ (534)</u>	<u>51</u>

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

Based on this evaluation, the Company concluded that any unrealized losses at December 31, 2020 represented a temporary impairment, as these unrealized losses are primarily attributable to changes in interest rates and current market conditions,

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and not credit deterioration of the issuers. As of December 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.

*Other Investments:*

Our other investments consist of restricted 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 December 31, 2020, the Company determined that there was no impairment on its other investment securities.

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

	December 31, 2020	December 31, 2019
Federal Reserve Bank stock	\$ 8,606	\$ 7,917
Federal Home Loan Bank stock	5,838	4,646
First National Bankers Bank stock	350	350
Total	<u>\$ 14,794</u>	<u>\$ 12,913</u>

**Note 5. Loans and Allowance for Loan Losses***Portfolio Segmentation:*

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

	December 31, 2020			December 31, 2019		
	PCI Loans	All Other Loans	Total	PCI Loans	All Other Loans	Total
Commercial real estate	\$ 16,123	\$ 996,853	\$ 1,012,976	\$ 15,255	\$ 890,051	\$ 905,306
Consumer real estate	10,258	433,672	443,930	6,541	410,941	417,482
Construction and land development	5,348	272,727	278,075	4,458	223,168	227,626
Commercial and industrial	308	634,138	634,446	407	336,668	337,075
Consumer and other	27	12,789	12,816	326	9,577	9,903
Total loans	32,064	2,350,179	2,382,243	26,987	1,870,405	1,897,392
Less: Allowance for loan losses	(309)	(18,037)	(18,346)	(156)	(10,087)	(10,243)
Loans, net	<u>\$ 31,755</u>	<u>\$ 2,332,142</u>	<u>\$ 2,363,897</u>	<u>\$ 26,831</u>	<u>\$ 1,860,318</u>	<u>\$ 1,887,149</u>

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 following describe risk characteristics relevant to each of the portfolio segments:

**Commercial Real Estate:** Commercial real estate loans include owner-occupied commercial real estate loans and loans secured by income-producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real

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estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties. Loans within this portfolio segment are particularly sensitive to the valuation of real estate.

**Consumer Real Estate:** Consumer real estate loans include real estate loans secured by first liens, second liens, or open end real estate loans, such as home equity lines. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. Loans within this portfolio segment are particularly sensitive to the valuation of real estate.

**Construction and Land Development:** Loans for real estate construction and development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral. Loans within this portfolio segment are particularly sensitive to the valuation of real estate.

**Commercial and Industrial:** The commercial and industrial loan portfolio segment includes commercial and financial loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

**Consumer and Other:** The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans, and educational loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

#### Credit Risk Management:

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Credit Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer real estate and consumer and other portfolio segments, the risk management process focuses on managing customers who become delinquent in their payments. For the other portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios, including a third party review of the largest credits on an annual basis or more frequently, as needed. To ensure problem credits are identified on a timely basis, several specific portfolio reviews occur periodically to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by Director and Loan Committees.

The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses, which is evaluated quarterly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment and general allocations for pools of homogeneous loans with similar risk characteristics and trends.

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The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows; (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The Company's homogeneous loan pools include commercial real estate loans, consumer real estate loans, construction and land development loans, commercial and industrial loans, and consumer and other loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors.

The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk; (7) effectiveness of the Company's loan policies, procedures and internal controls; (8) COVID-19 loan modification factor and (9) COVID-19 Q factor, which is based upon active COVID cases within the Company's footprint. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio adjusted for qualitative factors and the total dollar amount of the loans in the pool.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term.

As previously mentioned in Note 1 – *Presentation of Financial Information*, the CARES Act established the PPP, administered directly by the SBA. The PPP provides loans of up to \$10 million to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. PPP loans carry an interest rate of one percent, and a maturity of two or five years. These loans are fully guaranteed by the SBA and are not included in the Company's loan loss allowance calculations. The loans may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. The SBA pays the Company fees for processing PPP loans in the following amounts: (1) five percent for loans of not more than \$350,000; (2) three percent for loans of more than \$350,000 and less than \$2,000,000; and (3) one percent for loans of at least \$2,000,000. These processing fees are accounted for as loan origination fees and recognized over the contractual loan term as a yield adjustment on the loans. During 2020 the Company recorded net fees related to these loans of \$11.0 million and recognized \$5.9 million into loan interest income. PPP loans are included in the Commercial and Industrial loan class. As of December 31, 2020, the Company had approximately 2,863 PPP loans outstanding, with an outstanding principal balance of \$288.9 million.

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

	<b>Commercial Real Estate</b>	<b>Consumer Real Estate</b>	<b>Construction and Land Development</b>	<b>Commercial and Industrial</b>	<b>Consumer and Other</b>	<b>Total</b>
<b>December 31, 2020:</b>						
Performing loans	\$ 992,982	\$ 432,356	\$ 272,727	\$ 633,992	\$ 12,789	\$ 2,344,846
Impaired loans	3,871	1,316	—	146	—	5,333
	<u>996,853</u>	<u>433,672</u>	<u>272,727</u>	<u>634,138</u>	<u>12,789</u>	<u>2,350,179</u>
PCI loans	16,123	10,258	5,348	308	27	32,064
Total loans	<u>\$ 1,012,976</u>	<u>\$ 443,930</u>	<u>\$ 278,075</u>	<u>\$ 634,446</u>	<u>\$ 12,816</u>	<u>\$ 2,382,243</u>
<b>December 31, 2019:</b>						
Performing loans	\$ 889,795	\$ 409,394	\$ 222,621	\$ 336,508	\$ 9,577	\$ 1,867,895
Impaired loans	256	1,547	547	160	—	2,510
	<u>890,051</u>	<u>410,941</u>	<u>223,168</u>	<u>336,668</u>	<u>9,577</u>	<u>1,870,405</u>
PCI loans	15,255	6,541	4,458	407	326	26,987
Total loans	<u>\$ 905,306</u>	<u>\$ 417,482</u>	<u>\$ 227,626</u>	<u>\$ 337,075</u>	<u>\$ 9,903</u>	<u>\$ 1,897,392</u>

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

	<b>Commercial Real Estate</b>	<b>Consumer Real Estate</b>	<b>Construction and Land Development</b>	<b>Commercial and Industrial</b>	<b>Consumer and Other</b>	<b>Total</b>
<b>December 31, 2020:</b>						
Performing loans	\$ 7,579	\$ 3,267	\$ 2,076	\$ 4,768	\$ 110	\$ 17,800
Impaired loans	—	116	—	121	—	237
	<u>7,579</u>	<u>3,383</u>	<u>2,076</u>	<u>4,889</u>	<u>110</u>	<u>18,037</u>
PCI loans	—	88	—	218	3	309
Total loans	<u>\$ 7,579</u>	<u>\$ 3,471</u>	<u>\$ 2,076</u>	<u>\$ 5,107</u>	<u>\$ 113</u>	<u>\$ 18,346</u>
<b>December 31, 2019:</b>						
Performing loans	\$ 4,491	\$ 2,159	\$ 1,127	\$ 1,766	\$ 69	\$ 9,612
Impaired loans	—	343	—	132	—	475
	<u>4,491</u>	<u>2,502</u>	<u>1,127</u>	<u>1,898</u>	<u>69</u>	<u>10,087</u>
PCI loans	17	74	—	59	6	156
Total loans	<u>\$ 4,508</u>	<u>\$ 2,576</u>	<u>\$ 1,127</u>	<u>\$ 1,957</u>	<u>\$ 75</u>	<u>\$ 10,243</u>

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

	<b>Year Ended December 31, 2020</b>					<b>Total</b>
	<b>Commercial Real Estate</b>	<b>Consumer Real Estate</b>	<b>Construction and Land Development</b>	<b>Commercial and Industrial</b>	<b>Consumer and Other</b>	
Beginning balance	\$ 4,508	\$ 2,576	\$ 1,127	\$ 1,957	\$ 75	\$ 10,243
Loans charged-off	—	(23)	—	(420)	(398)	(841)
Recoveries of loans charged-off	19	39	2	114	87	261
Provision charged to expense	3,052	879	947	3,456	349	8,683

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Ending balance	\$ 7,579	\$ 3,471	\$ 2,076	\$ 5,107	\$ 113	\$ 18,346
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	Year Ended December 31, 2019					Total
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	
Beginning balance	\$ 3,639	\$ 1,789	\$ 795	\$ 1,746	\$ 306	\$ 8,275
Loans charged-off	(36)	(4)	—	(659)	(344)	(1,043)
Recoveries of loans charged-off	65	164	8	77	98	412
Provision charged to expense	840	627	324	793	15	2,599
Ending balance	\$ 4,508	\$ 2,576	\$ 1,127	\$ 1,957	\$ 75	\$ 10,243

We maintain the allowance at a level that we deem appropriate to adequately cover the probable losses inherent in the loan portfolio. Our provision for loan losses for the year ended December 31, 2020, is \$8.7 million compared to \$2.6 million in the same period of 2019, an increase of \$6.1 million. As of December 31, 2020, and 2019, our allowance for loan losses was \$18.3 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 December 31, 2020, as compared to December 31, 2019, is primarily attributable to the ongoing economic uncertainties related to the COVID-19 pandemic. Also, during 2020, the Company updated the Allowance for Loan Loss policy to increase the additional basis points allowed for the unallocated risk portion from 100 basis points to 125 basis points. In addition, the Company added two new qualitative factors; 1.) based on the percentage of COVID modified loans to total loans and 2.) the average number of COVID cases within our footprint. The qualitative factors were also expanded to provide additional granularity related to the hospitality and restaurant industries which are most impacted by the pandemic within our footprint. The changes in our economic factors and the addition of the COVID modified factors equated to an additional \$8.3 million in reserve. Our allowance for loan loss as a percentage of total loans was 0.77% at December 31, 2020 and 0.54% at December 31, 2019.

A description of the general characteristics of the risk grades used by the Company is as follows:

**Pass:** Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

**Watch:** Loans in this risk category involve borrowers that exhibit characteristics, or are operating under conditions that, if not successfully mitigated as planned, have a reasonable risk of resulting in a downgrade within the next six to twelve months. Loans may remain in this risk category for six months and then are either upgraded or downgraded upon subsequent evaluation.

**Special Mention:** Loans in this risk grade are the equivalent of the regulatory definition of "Other Assets Especially Mentioned" classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and /or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in the Company's credit position.

**Substandard:** Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

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**Doubtful:** Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

**Uncollectible:** Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Company typically does not maintain a recorded investment in loans within this category.

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

	December 31, 2020					
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
<b>Non PCI Loans:</b>						
Pass	\$ 922,153	\$ 417,302	\$ 269,350	\$ 625,836	\$ 12,622	\$ 2,247,263
Watch	66,287	14,218	3,296	7,673	137	91,611
Special mention	4,446	46	—	320	—	4,812
Substandard	3,967	2,020	81	261	30	6,359
Doubtful	—	86	—	48	—	134
Total	996,853	433,672	272,727	634,138	12,789	2,350,179
<b>PCI Loans:</b>						
Pass	11,072	8,382	1,008	262	25	20,749
Watch	3,381	224	3,820	—	2	7,427
Special mention	19	57	—	—	—	76
Substandard	1,651	1,595	520	46	—	3,812
Doubtful	—	—	—	—	—	—
Total	16,123	10,258	5,348	308	27	32,064
Total loans	\$ 1,012,976	\$ 443,930	\$ 278,075	\$ 634,446	\$ 12,816	\$ 2,382,243

	December 31, 2019					
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
<b>Non PCI Loans:</b>						
Pass	\$ 860,447	\$ 407,336	\$ 216,459	\$ 328,564	\$ 9,462	\$ 1,822,268
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	410,941	223,168	336,668	9,577	1,870,405
<b>PCI Loans:</b>						
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	—	—	—	—	—	—

**SmartFinancial, Inc. and Subsidiary**

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Total	15,255	6,541	4,458	407	326	26,987
Total loans	\$ 905,306	\$ 417,482	\$ 227,626	\$ 337,075	\$ 9,903	\$ 1,897,392

*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 indication 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*):

	December 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	\$ 134	\$ —	\$ 67	\$ 3,740	\$ 3,941	\$ 16,123	\$ 992,912	\$ 1,012,976
Consumer real estate	1,916	51	82	1,823	3,872	10,258	429,800	443,930
Construction and land development	245	—	—	12	257	5,348	272,470	278,075
Commercial and industrial	12	76	—	36	124	308	634,014	634,446
Consumer and other	14	5	—	22	41	27	12,748	12,816
Total	\$ 2,321	\$ 132	\$ 149	\$ 5,633	\$ 8,235	\$ 32,064	\$ 2,341,944	\$ 2,382,243

	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	407,475	417,482
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	\$ 1,863,754	\$ 1,897,392

*Impaired Loans:*

A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

**SmartFinancial, Inc. and Subsidiary**

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

	December 31, 2020			December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>Impaired loans without a valuation allowance:</b>						
Commercial real estate	\$ 3,871	\$ 3,872	\$ —	\$ 256	\$ 261	\$ —
Consumer real estate	888	888	—	553	553	—
Construction and land development	—	—	—	547	547	—
Commercial and industrial	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—
	<u>4,759</u>	<u>4,760</u>	<u>—</u>	<u>1,356</u>	<u>1,361</u>	<u>—</u>
<b>Impaired loans with a valuation allowance:</b>						
Commercial real estate	—	—	—	—	—	—
Consumer real estate	428	428	116	994	994	343
Construction and land development	—	—	—	—	—	—
Commercial and industrial	146	146	121	160	160	132
Consumer and other	—	—	—	—	—	—
	<u>574</u>	<u>574</u>	<u>237</u>	<u>1,154</u>	<u>1,154</u>	<u>475</u>
<b>PCI loans:</b>						
Commercial real estate	—	—	—	17	99	17
Consumer real estate	1,827	2,086	88	1,205	1,371	74
Construction and land development	—	—	—	—	—	—
Commercial and industrial	270	234	218	396	534	59
Consumer and other	21	20	3	45	51	6
	<u>2,118</u>	<u>2,340</u>	<u>309</u>	<u>1,663</u>	<u>2,055</u>	<u>156</u>
Total impaired loans	<u>\$ 7,451</u>	<u>\$ 7,674</u>	<u>\$ 546</u>	<u>\$ 4,173</u>	<u>\$ 4,570</u>	<u>\$ 631</u>

	December 31, 2020		December 31, 2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Impaired loans without a valuation allowance:</b>				
Commercial real estate	\$ 1,073	\$ 12	\$ 399	\$ 30
Consumer real estate	701	33	725	15
Construction and land development	231	—	619	5
Commercial and industrial	—	—	20	1
Consumer and other	—	—	11	1
	<u>2,005</u>	<u>45</u>	<u>1,774</u>	<u>52</u>
<b>Impaired loans with a valuation allowance:</b>				
Commercial real estate	158	2	9	1
Consumer real estate	656	24	397	17
Construction and land development	—	—	11	—
Commercial and industrial	244	8	430	16
Consumer and other	—	—	23	—
	<u>1,058</u>	<u>34</u>	<u>870</u>	<u>34</u>
<b>PCI loans:</b>				
Commercial real estate	200	1	1,518	(25)
Consumer real estate	1,461	117	922	42
Construction and land development	46	—	—	—
Commercial and industrial	321	7	79	9
Consumer and other	27	—	9	1
	<u>2,055</u>	<u>125</u>	<u>2,528</u>	<u>27</u>
Total impaired loans	<u>\$ 5,118</u>	<u>\$ 204</u>	<u>\$ 5,172</u>	<u>\$ 113</u>

## SmartFinancial, Inc. and Subsidiary

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#### Troubled Debt Restructurings:

At December 31, 2020 and 2019, impaired loans included loans that were classified as 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 December 31, 2020, and 2019, management had approximately \$257 thousand and \$61 thousand, respectively, in loans that met the criteria for TDR restructured loans, 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 management will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following table presents a summary of loans that were modified as troubled debt restructurings during the year ended December 31, 2020 (*dollars in thousands*):

<b>December 31, 2020</b>	<b>Number of Contracts</b>	<b>Pre-Modification Outstanding Recorded Investment</b>	<b>Post-Modification Outstanding Recorded Investment</b>
Consumer real estate	1	\$ 108	\$ 108
Commercial and industrial	3	141	141
Consumer other	1	8	8

There were no loans that were modified as troubled debt restructurings during the past twelve months and for which there was a subsequent payment default.

The Company began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. The Coronavirus Aid Relief and Economic Security ("CARES") Act along with a joint agency statement issued by banking agencies, provides that short-term modifications made in response to COVID-19 does not need to be accounted for as a TDR. Accordingly, the Company does not account for such loan modifications as TDRs. See Note 1 *Presentation of Financial Information* for more information. At December 31, 2020, the Company had loans remaining under COVID-19 modifications that amounted to \$17.2 million, or 0.7% of the total loans outstanding.

## SmartFinancial, Inc. and Subsidiary

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#### Foreclosure Proceedings and Balances:

As of December 31, 2020, the amount of residential real estate where physical possession had been obtained and included with in other real estate owned assets was one property for \$26 thousand and one property for \$215 thousand at December 31, 2019.

There were five residential real estate loans totaling \$384 thousand in process of foreclosure at December 31, 2020 and none at December 31, 2019.

#### Purchased Credit Impaired Loans:

The Company has acquired loans which 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 for the years ended December 31, are as follows (*in thousands*):

	2020	2019
Commercial real estate	\$ 23,787	\$ 21,570
Consumer real estate	12,692	8,411
Construction and land development	1,812	5,394
Commercial and industrial	6,521	2,540
Consumer and other	161	504
Total loans	44,973	38,419
Less: Remaining purchase discount	(12,909)	(11,432)
Total loans, net of purchase discount	32,064	26,987
Less: Allowance for loan losses	(309)	(156)
Carrying amount, net of allowance	<u>\$ 31,755</u>	<u>\$ 26,831</u>

The following is a summary of the accretable yield on acquired loans for the years ended December 31, (*in thousands*):

	2020	2019
Accretable yield, beginning of period	\$ 8,454	\$ 7,052
Additions	2,515	—
Accretion income	(5,347)	(4,627)
Reclassification	2,792	3,555
Other changes, net	8,475	2,474
Accretable yield, end of period	<u>\$ 16,889</u>	<u>\$ 8,454</u>

There was an allowance for loan losses on purchase credit impaired loans at the years ended December 31, 2020 and 2019 of \$309 thousand and \$156 thousand, respectively.

#### Related Party Loans:

In the ordinary course of business, the Company has granted loans to certain related interests, including directors, executive officers, and their affiliates (collectively referred to as "related parties"). Such loans are made in the ordinary course of

## SmartFinancial, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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business and on substantially the same terms as those for comparable transactions prevailing at the time and do not present other unfavorable features. A summary of activity in loans to related parties is as follows (*in thousands*):

	2020	2019
Balance, beginning of year	\$ 24,091	\$ 31,246
Disbursements	7,108	16,297
Repayments	(16,740)	(23,452)
Balance, end of year	<u>\$ 14,459</u>	<u>\$ 24,091</u>

At December 31, 2020, the Company had pre-approved but unused lines of credit totaling approximately \$6.2 million to related parties.

#### Note 6. Premises and Equipment

A summary of premises and equipment at December 31, is as follows (*in thousands*):

	Useful Life	2020	2019
Land and land improvements	Indefinite	\$ 16,724	\$ 14,712
Building and leasehold improvements	15-40 years	53,701	38,640
Furniture, fixtures and equipment	3-7 years	18,095	13,744
Construction in progress		964	5,523
Total, gross		89,484	72,619
Accumulated depreciation		(16,802)	(13,186)
Total, net		<u>\$ 72,682</u>	<u>\$ 59,433</u>

At December 31, 2020 management estimates the cost necessary to complete the construction in progress will be approximately \$150 thousand.

Depreciation and amortization expense relating to premises and equipment was \$3.7 million and \$2.8 million for the years ended December 31, 2020 and 2019, respectively.

#### Note 7. Goodwill and Intangible Assets

##### 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.

Considering the recent economic conditions resulting from the COVID-19 pandemic, the Company performed a Step 1 goodwill impairment test (which compares the fair value of a reporting unit with its carrying amount, including goodwill) at September 30, 2020, and December 31, 2020, the results indicated that there was no impairment. 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, insurance agency customer relationships and insurance agency tradename. They are 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 insurance agency customer relationships are amortized over ten years and the insurance agency tradename is amortized over five years.

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

	December 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	8,521	—
Balance, end of the period	<u>\$ 74,135</u>	<u>\$ 65,614</u>

Amortized other intangible assets:	Core Deposit Intangibles	Insurance Agency Customer Relationships	Insurance Agency Tradenname	Total
Beginning balance January 1, 2020	\$ 14,550	\$ -	\$ -	\$ 14,550
Acquisition of PFG	1,370	1,064	63	2,497
Balance, December 31, 2020, other intangible assets, gross	15,920	1,064	63	17,047
Less: accumulated amortization	(4,540)	(161)	(10)	(4,711)
Balance, December 31, 2020, other intangible assets, net	<u>11,380</u>	<u>903</u>	<u>53</u>	<u>12,336</u>
Beginning balance January 1, 2019	\$ 14,550	\$ -	\$ -	\$ 14,550
Less: accumulated amortization	(2,971)	-	-	(2,971)
Balance, December 31, 2019, other intangible assets, net	<u>11,579</u>	<u>-</u>	<u>-</u>	<u>11,579</u>

The aggregate amortization expense for other intangibles assets for the years ended December 31, 2020 and 2019, was \$1.7 million and \$1.4 million, respectively.

The estimated aggregate amortization expense for future periods for other intangible assets is as follows (*in thousands*):

2021	\$ 1,760
2022	1,697
2023	1,636
2024	1,588
2025	1,531
Thereafter	4,124
Total	<u>\$ 12,336</u>

**Note 8. Deposits**

The aggregate amount of time deposits in denominations of \$250,000 or more was \$138.1 million and \$136.5 million at December 31, 2020 and 2019, respectively. At December 31, 2020, the scheduled maturities of time deposits are as follows (*in thousands*):

2021	\$ 389,097
2022	82,271
2023	44,957
2024	22,444
2025	10,906
Thereafter	487
Total	<u>\$ 550,162</u>

## SmartFinancial, Inc. and Subsidiary

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As of December 31, 2020, and 2019, there was a fair value adjustment of \$336 thousand and \$206 thousand, respectively, to time deposits as a result of business combinations.

At December 31, 2020 and 2019, the Company had \$285 thousand and \$254 thousand, respectively, of deposit accounts in overdraft status that have been reclassified to loans on the accompanying consolidated balance sheets. From time to time, the Company engages in deposit transactions with its directors, executive officers and their related interests (collectively referred to as "related parties"). Such deposits are made in the ordinary course of business and on substantially the same terms as those for comparable transactions prevailing at the time and do not present other unfavorable features. The total amount of related party deposits was \$21.6 million and \$16.8 million at December 31, 2020 and 2019, respectively.

#### Note 9. Borrowings and Line of Credit

##### Securities Sold Under Agreements to Repurchase:

Securities sold under repurchase agreements, which are secured borrowings, generally mature within one to four days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

At December 31, 2020 and 2019, the Company had securities sold under agreements to repurchase of \$5.8 million and \$6.2 million, respectively, with commercial checking customers which were secured by government agency securities. The carrying value of investment securities pledged as collateral under repurchase agreements was \$7.6 million and \$12.9 million at December 31, 2020 and December 31, 2019, respectively.

##### Federal Reserve Bank:

The bank has agreements with the Federal Reserve Bank's discount window to provide additional funding to the Bank. The Federal Reserve discount window line is collateralized by a pool of commercial real estate loans and commercial and industrial loans.

At December 31, 2020 and 2019, the funding capacity and loans secured for borrowings was as follows (*in thousands*):

	2020	2019
Maximum funding capacity	\$ 149,219	\$ 6,994
Borrowings	—	—
Additional funding capacity	\$ 149,219	\$ 6,994
Loans secured for borrowings	\$ 258,774	\$ 9,562

##### Federal Home Loan Bank Advances:

The Bank has agreements with the Federal Home Loan Bank of Cincinnati ("FHLB") that can provide advances to the Bank. All of the advances 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 December 31, 2020 and 2019.

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At December 31, 2020 and 2019, the borrowing capacity and loans secured for advances was as follows (*in thousands*):

	2020	2019
Maximum borrowing capacity	\$ 194,445	\$ 156,059
FHLB advances	(75,000)	(25,000)
Secured lines of credit	(83,982)	(83,982)
Additional borrowing capacity	\$ 35,463	\$ 47,077
Loans secured for advances	<u>\$ 281,670</u>	<u>\$ 554,371</u>

At December 31, 2020 and 2019, FHLB advances consist of the following (*in thousands*):

	2020	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. <sup>1</sup>	\$ 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. <sup>1</sup>	50,000	—
Total	<u>\$ 75,000</u>	<u>\$ 25,000</u>

<sup>1</sup>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.

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 December 31, 2020 and 2019 was \$396 thousand and \$439 thousand, respectively, with a maturity on April 30, 2028.

Scheduled maturities:

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

2021	\$ 45
2022	47
2023	50
2024	52
2025	54
Thereafter	75,148
Total	<u>\$ 75,396</u>

Federal Funds Purchased:

There were no federal funds purchased as of December 31, 2020 and 2019, respectively.

## SmartFinancial, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Line of Credit:

The Company has 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 December 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.

#### **Note 10. Subordinated Debt**

On September 28, 2018, the Company issued \$40 million of 5.625% fixed-to-floating rate subordinated notes (the "Notes"), which was outstanding as of December 31, 2020 and 2019. Unamortized debt issuance cost was \$654 thousand and \$739 thousand at December 31, 2020 and 2019, respectively.

The Notes initially bears interest at a rate of 5.625% per annum from and including September 28, 2018, to but excluding October 2, 2023, with interest during this period payable semi-annually in arrears. From and including October 2, 2023, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an annual floating rate equal to three-month LIBOR, or an alternative rate determined in accordance with the terms of the Notes if three-month LIBOR cannot be determined, plus 255 basis points, with interest during this period payable quarterly in arrears. The Notes are redeemable by the Company, in whole or in part, on or after October 2, 2023, and at any time, in whole but not in part, upon the occurrence of certain events. The Notes have been structured to qualify initially as Tier 2 capital for the Company for regulatory capital purposes.

The Notes debt issuance costs totaled \$842 thousand and will be amortized through the Notes' maturity date. Amortization expense totaled \$84 thousand and \$84 thousand for the years ended December 31, 2020 and 2019, respectively.

#### **Note 11. 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*):

	<b>Classification</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Assets:</b>			
Operating lease right-of-use assets	Other assets	\$ 4,797	\$ 5,470
<b>Liabilities:</b>			
Operating lease liabilities	Other liabilities	\$ 4,827	\$ 5,479

## SmartFinancial, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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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 December 31, 2020, the weighted average remaining lease term was 11.28 years and the weighted average discount rate was 2.72%.

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. The following table represents lease costs and other lease information for the years ended December 31, (*in thousands*):

	2020	2019
<b>Lease costs:</b>		
Operating lease costs	\$ 1,044	\$ 703
Short-term lease costs	—	12
Variable lease costs	111	95
Total	<u>\$ 1,155</u>	<u>\$ 810</u>
<b>Other information:</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	<u>\$ 1,265</u>	<u>\$ 693</u>

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

	<b>Amounts</b>
2021	\$ 804
2022	623
2023	485
2024	366
2025	348
Thereafter	3,032
Total future minimum lease payments	5,658
Amounts representing interest	(831)
Present value of net future minimum lease payments	<u>\$ 4,827</u>

Lease expense for the years ended December 31, 2020 and 2019, was \$1.2 million and \$875 thousand, respectively.

The Company entered into two leasing arrangements for branch offices with companies that are wholly owned by a board of director's immediate family. The Company has determined that these leasing arrangements were considered economically fair and in the best interest of the Company. For the years ended December 31, 2020 and 2019, the Company paid \$150 thousand and \$89 thousand, respectively, for base rent payments.

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**Note 12. Income Taxes**

Income tax expense in the consolidated statements of income for the years ended December 31, 2020 and 2019, includes the following (*in thousands*):

	<u>2020</u>	<u>2019</u>
Current tax expense		
Federal	\$ 6,330	\$ 5,143
State	1,447	974
Deferred tax expense related to:		
Federal	(991)	678
State	(228)	102
Total income tax expense	<u>\$ 6,558</u>	<u>\$ 6,897</u>

The income tax expense is different from the expected tax expense computed by multiplying income before income tax expense by the statutory income tax rate of 21%. The reasons for this difference are as follows (*in thousands*):

	<u>2020</u>	<u>2019</u>
Federal income tax expense computed at the statutory rate	\$ 6,487	\$ 7,024
State income taxes, net of federal tax benefit	923	872
Nondeductible acquisition expenses	109	—
Tax-exempt interest	(555)	(469)
Tax benefit from stock options	(14)	(24)
Other	(392)	(506)
Total income tax expense	<u>\$ 6,558</u>	<u>\$ 6,897</u>

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The components of the net deferred tax asset as of December 31, 2020 and 2019, were as follows (in thousands):

	2020	2019
Deferred tax assets:		
Allowance for loan losses	\$ 4,744	\$ 2,688
Fair value adjustments	3,854	4,098
Unrealized losses on securities	—	—
Unrealized losses on hedges or derivative securities	278	79
Other real estate owned	523	25
Deferred compensation	1,103	976
Lease liability	1,248	1,438
Federal net operating loss carryforward	—	221
Other	82	442
Total deferred tax assets	<u>11,832</u>	<u>9,967</u>
Deferred tax liabilities:		
Accumulated depreciation	1,374	1,610
Core deposit intangible	3,112	2,971
Right of use asset	1,240	1,435
Unrealized gains on available-for-sale securities	1,051	139
Other	663	332
Total deferred tax liabilities	<u>7,440</u>	<u>6,487</u>
Net deferred tax asset	<u>\$ 4,392</u>	<u>\$ 3,480</u>

During 2020, the CARES Act was passed allowing the five year carryback of net operating losses ("NOLs"). The Federal NOLs acquired with Foothills Bancorp, Inc. and Tennessee Bancshares, Inc. were carried back for a refund in 2020. The income tax returns of the Company for 2019, 2018, and 2017 are subject to examination by the federal and state taxing authorities, generally for three years after they were filed.

**Note 13. 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 90 days 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 was \$1.1 million in 2020 and \$818 thousand in 2019.

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 December 31, 2020, the Company had one active equity incentive plan available for future grants, the 2015 Stock Incentive Plan, which had 26,601 rights issued and 1,876,894 Rights available for future grants or awards.

In addition, the Company has 30,500 Rights issued from the Cornerstone Bancshares, Inc. 2002 Long Term Incentive Plan, 40,250 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.

**SmartFinancial, Inc. and Subsidiary**

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Stock Options:

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

	Number	Weighted Average Exercisable Price
Outstanding at December 31, 2018	170,625	\$ 10.61
Granted	—	—
Exercised	(31,931)	11.85
Forfeited	(2,036)	12.20
Outstanding at December 31, 2019	136,658	10.29
Granted	—	—
Exercised	(33,556)	10.12
Forfeited	(3,485)	15.05
Outstanding at December 31, 2020	<u>99,617</u>	<u>10.19</u>

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

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price	
\$ 6.60	19,250	1.19 years	\$ 6.60	19,250	\$ 6.60	
6.80	11,250	0.16 years	6.80	11,250	6.80	
9.48	18,500	2.19 years	9.48	18,500	9.48	
9.60	21,750	2.99 years	9.60	21,750	9.60	
11.76	2,266	1.50 years	11.76	2,266	11.76	
15.05	26,601	4.57 years	15.05	26,601	15.05	
Outstanding, end of period	<u>99,617</u>	<u>2.57 years</u>	<u>\$ 10.19</u>	<u>99,617</u>	<u>\$ 10.19</u>	

The Company did not recognize any stock option-based compensation expense for the period ended December 31, 2020, as all stock options are fully vested. During the period ended December 31, 2019, stock option-based compensation was \$121 thousand.

The intrinsic value of options exercised during the periods ended December 31, 2020 and 2019 was \$190 thousand and \$372 thousand, respectively. The aggregate intrinsic value of total options outstanding and exercisable options at December 31, 2020, was \$792 thousand. Cash received from options exercised under all share-based payment arrangements for the period ended December 31, 2020, was \$339 thousand.

No options vested during the periods ended December 31, 2020, and 2019, respectively. The income tax benefit recognized for the exercise of options during the periods ended December 31, 2020 and 2019 was \$18 thousand and \$61 thousand, respectively.

## SmartFinancial, Inc. and Subsidiary

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

#### Restricted Stock Awards:

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

The following table summarizes activity relating to non-vested restricted stock awards:

	Number	Weighted Average Grant-Date Fair Value
Balance at December 31, 2019	65,400	\$ 21.04
Granted	43,613	15.95
Vested	(7,295)	18.32
Forfeited/expired	(1,500)	18.12
Balance at December 31, 2020	<u>100,218</u>	<u>\$ 19.07</u>

The Company measures the fair value of restricted stock awards based on the price of the Company's common stock on the grant date, and compensation expense is recorded over the vesting period. The compensation expense for restricted stock awards during the periods ended December 31, 2020 and 2019, was \$482 thousand and \$396 thousand, respectively. As of December 31, 2020, there was \$1.0 million, respectively, 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 2.85 years. The grant-date fair value of restricted stock awards vested was \$134 thousand for the period ended December 31, 2020.

#### Stock Appreciation Rights ("SARs"):

When SAR's are issued, they are assigned an exercisable price based on the closing stock price on the date of grant. The SAR's are recorded at fair market value and adjusted through salaries and employee benefits expense. The SAR's will be settled through cash based on the difference of Company's closing stock price on exercise date and original grant date stock price. SARs compensation expense of \$51 thousand and \$134 thousand was recognized for the years ended December 31, 2020 and 2019, respectively.

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

	Number	Weighted Average Exercisable Price
Outstanding at December 31, 2018	50,000	\$ 21.64
Granted	21,000	18.12
Exercised	—	—
Forfeited/Expired	(4,000)	21.67
Outstanding at December 31, 2019	67,000	20.54
Granted	18,000	15.19
Exercised	—	—
Forfeited/Expired	(12,000)	21.72
Outstanding at December 31, 2020	73,000	\$ 19.02

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

	SARs Outstanding			SARs Exercisable	
	Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable
\$ 15.19	18,000	3.00 years	\$ 15.19	—	\$ —
18.12	21,000	2.00 years	18.12	—	—
21.61	34,000	1.00 years	21.61	—	—
Outstanding, end of period	73,000	1.78 years	\$ 19.02	—	\$ —

**Note 14. Commitments and Contingent Liabilities**

*Commitments:*

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 in the balance sheets. 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 for the years ended December 31, 2020 and 2019, are as follows (*in thousands*):

	2020	2019
Commitments to extend credit	\$ 476,841	\$ 384,411
Standby letters of credit	5,261	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

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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 December 31, 2020 and 2019, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant. The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on standby letters of credit for the years ended December 31, 2020 and 2019.

#### *Contingent Liabilities:*

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 15. Regulatory Matters**

##### *Regulatory Capital Requirements:*

The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective January 1, 2015. In order to avoid restrictions on capital distributions and discretionary bonus payments to executives, under the new rules a covered banking organization is also required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of common equity Tier 1, and the buffer applies to all three risk-based measurements (CET1, Tier 1 capital and total capital). As of January 1, 2019, an additional amount of Tier 1 common equity equal to 2.5% of risk-weighted assets is required for compliance with the capital conservation buffer. The ratios for the Company and the Bank are currently sufficient to satisfy the fully phased-in conservation buffer. At December 31, 2020, 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 (the "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. Because this test involves a measure of net income, any charge on the Bank's income statement, such as an impairment of goodwill, could impair the Bank's ability to pay dividends to the Company. 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

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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 year ended December 31, 2020, the Bank paid \$13.9 million in dividends to the Company and no dividends were paid during the year ended December 31, 2019. 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 December 31, 2020 and 2019 are presented below (*dollars in thousands*):

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provisions <sup>1</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2020</b>						
SmartFinancial:						
Total Capital (to Risk Weighted Assets)	\$ 329,431	14.07 %	\$ 187,303	8.00 %	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	271,739	11.61 %	140,477	6.00 %	N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	271,739	11.61 %	105,358	4.50 %	N/A	N/A
Tier 1 Capital (to Average Assets) <sup>2</sup>	271,739	8.70 %	125,002	4.00 %	N/A	N/A
SmartBank:						
Total Capital (to Risk Weighted Assets)	\$ 317,660	13.57 %	\$ 187,294	8.00 %	\$ 234,117	10.00 %
Tier 1 Capital (to Risk Weighted Assets)	299,314	12.78 %	140,470	6.00 %	187,294	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)	299,314	12.78 %	105,353	4.50 %	152,176	6.50 %
Tier 1 Capital (to Average Assets) <sup>2</sup>	299,314	9.58 %	124,969	4.00 %	156,212	5.00 %
<b>December 31, 2019</b>						
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 %

<sup>1</sup> The prompt corrective action provisions are applicable at the Bank level only.

<sup>2</sup> Average assets for the above calculations were based on the most recent quarter.

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#### **Note 16. Concentrations of Credit Risk**

The Company originates primarily commercial, residential, and consumer loans to customers in East and Middle Tennessee, Alabama, and the Florida panhandle. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

Seventy-two percent of the Company's loan portfolio is concentrated in loans secured by real estate, of which a substantial portion is secured by real estate in the Company's primary market areas. Commercial real estate, including commercial construction loans, represented 51% of the loan portfolio at December 31, 2020, and 56% of the loan portfolio at December 31, 2019. Accordingly, the ultimate collectability of the loan portfolio and recovery of the carrying amount of other real estate owned is susceptible to changes in real estate conditions in the Company's primary market areas. The other concentrations of credit by type of loan are set forth in Note 5.

The Bank, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 25% of statutory capital, or approximately \$95.6 million.

#### **Note 17. Fair Value of Assets and Liabilities**

##### *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.

##### *Fair Value Hierarchy:*

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

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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 following methodologies were used by the Company in estimating fair value disclosures for financial instruments:

**Securities Available-for-Sale:** Where quoted prices are available in an active market, management classifies the securities within Level 1 of the valuation hierarchy. If quoted market prices are not available, management estimates fair values using pricing models that use observable inputs or quoted prices at securities with similar characteristics. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, including GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, management classifies those securities in Level 3.

**Other Investments:** It is not practicable to determine the fair value of other investments due the restrictions placed on its transferability and are not readily marketable and are evaluated for impairment based on the ultimate recoverability of the par value.

**Loans:** Fair value for variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair value for fixed rate loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. These methods are considered Level 3 inputs.

**Deposits:** The fair values for demand deposits (for example, interest and noninterest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

**Securities Sold Under Agreement to Repurchase:** The carrying value of these liabilities approximates their fair value.

**Federal Home Loan Bank ("FHLB") Advances, Subordinated Debt and Other Borrowings:** The fair value of the FHLB fixed rate borrowings are estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements, and are considered Level 2 inputs. The carrying value of FHLB floating rate borrowings and floating rate other borrowings and subordinated debt approximates their fair value and are considered Level 1 inputs. The fair value of the subordinated debt borrowings are estimated using discounted cash flows and are considered Level 3 inputs.

**Derivative Financial Instruments** - Fair value is estimated using pricing models of derivatives with similar characteristics or discounted cash flow models where future floating cash flows are projected and discounted back; and accordingly, these derivatives are classified within Level 2 of the fair value hierarchy.

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**Commitments to Extend Credit and Standby Letters of Credit:** Because commitments to extend credit and standby letters of credit are made using variable rates and have short maturities, the carrying value and the fair value are immaterial for disclosure.

Measurements of Fair Value:

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)
<b>December 31, 2020:</b>				
<b>Assets:</b>				
Securities available-for-sale:				
U.S. Government-sponsored enterprises (GSEs)	\$ 30,530	\$ —	\$ 30,530	\$ —
Municipal securities	91,989	—	91,989	—
Other debt securities	25,118	—	25,118	—
Mortgage-backed securities (GSEs)	67,997	—	67,997	—
Total securities available-for-sale	<u>\$ 215,634</u>	<u>\$ —</u>	<u>\$ 215,634</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Derivative financial instruments	<u>\$ 6,174</u>	<u>\$ —</u>	<u>\$ 6,174</u>	<u>\$ —</u>
<b>December 31, 2019:</b>				
<b>Assets:</b>				
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	<u>\$ 178,348</u>	<u>\$ —</u>	<u>\$ 178,348</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Derivative financial instruments	<u>\$ 3,446</u>	<u>\$ —</u>	<u>\$ 3,446</u>	<u>\$ —</u>

The Company has no assets or liabilities whose fair values are measured on a recurring basis using Level 3 inputs. Additionally, 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

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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)
<b>December 31, 2020:</b>				
Impaired loans	\$ 2,455	\$ —	\$ —	\$ 2,455
Other real estate owned	4,619	—	—	4,619
<b>December 31, 2019:</b>				
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
<b>December 31, 2020:</b>				
Impaired loans	\$ 2,455	Appraisal	Appraisal discounts	9 %
Other real estate owned	4,619	Appraisal	Appraisal discounts	22 %
<b>December 31, 2019:</b>				
Impaired loans	\$ 2,185	Appraisal	Appraisal 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

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**SmartFinancial, Inc. and Subsidiary**

*Notes to Consolidated Financial Statements*

December 31, 2020 and 2019

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*):

	Carrying Amount	Fair Value Measurements Using			Estimated Fair Value
		Level 1	Level 2	Level 3	
<b>December 31, 2020:</b>					
<b>Assets:</b>					
Cash and cash equivalents	\$ 481,719	\$ 481,719	\$ —	\$ —	\$ 481,719
Securities available-for-sale	215,634	—	215,634	—	215,634
Other investments	14,794	N/A	N/A	N/A	N/A
Loans, net and loans held for sale	2,375,618	—	—	2,377,581	2,377,581
<b>Liabilities:</b>					
Noninterest-bearing demand deposits	685,957	—	685,957	—	685,957
Interest-bearing demand deposits	649,129	—	649,129	—	649,129
Money market and savings deposits	919,631	—	919,631	—	919,631
Time deposits	550,498	—	554,120	—	554,120
Borrowings	81,199	—	82,892	—	82,892
Subordinated debt	39,346	—	—	40,550	40,550
Derivative financial instruments	6,174	—	6,174	—	6,174
<b>December 31, 2019:</b>					
<b>Assets:</b>					
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 and loans held for sale	1,893,005	—	—	1,879,825	1,879,825
<b>Liabilities:</b>					
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
Borrowings	31,623	—	31,029	—	31,029
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

**SmartFinancial, Inc. and Subsidiary**

*Notes to Consolidated Financial Statements*

December 31, 2020 and 2019

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 18. 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*):

	Balance Sheet Location	Weighted Average Remaining Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value
<b>Liability derivatives</b>						
<b>December 31, 2020:</b>						
Interest rate swap agreements - securities	Other liabilities	7.13	3.08 %	3 month LIBOR	\$ 36,000	\$ (6,174)
<b>December 31, 2019:</b>						
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*):

	Year Ended December 31,	
	2020	2019
Interest income on tax-exempt securities	\$ 2,150	\$ 1,741
Effects of fair value hedge relationships	(781)	(223)
Reported interest income on tax-exempt securities	\$ 1,369	\$ 1,518

  

Gain (loss) on fair value hedging relationship	Year Ended December 31,	
	2020	2019
Interest rate swap agreements - securities:		
Hedged items	\$ (6,174)	\$ (3,446)
Derivative designated as hedging instruments	\$ 6,174	\$ 3,446

**SmartFinancial, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
 December 31, 2020 and 2019

The following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges at December 31, 2020 and 2019 (*in thousands*):

Line item on the balance sheet	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in Other Comprehensive Income
<b>December 31, 2020:</b>		
Securities available-for-sale	\$ 44,017	\$ (1,063)
<b>December 31, 2019:</b>		
Securities available-for-sale	\$ 42,710	\$ (302)

**Note 19. Other Comprehensive Income (Loss)**

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

	Year Ended December 31, 2020		
	Securities Available-for- Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
<b>Beginning balance, December 31, 2019</b>	\$ 391	\$ (223)	\$ 168
Other comprehensive income (loss)	2,581	(562)	2,019
Reclassification of amounts included in net income	(4)	—	(4)
Net other comprehensive income (loss) during period	2,577	(562)	2,015
<b>Ending balance, December 31, 2020</b>	\$ 2,968	\$ (785)	\$ 2,183
	Year Ended December 31, 2019		
	Securities Available-for- Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
<b>Beginning balance, December 31, 2018</b>	\$ (1,979)	\$ (786)	\$ (2,765)
Other comprehensive income (loss)	2,395	563	2,958
Reclassification of amounts included in net income	(25)	—	(25)
Net other comprehensive income (loss) during period	2,370	563	2,933
<b>Ending balance, December 31, 2019</b>	\$ 391	\$ (223)	\$ 168

**Note 20. Condensed Parent Information****CONDENSED BALANCE SHEETS**

December 31, 2020 and 2019

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>
<b>ASSETS:</b>		
Cash	\$ 8,062	\$ 13,155
Investment in subsidiaries	384,743	337,503
Other assets	4,413	1,996
	<u>397,218</u>	<u>352,654</u>
Total assets	<u>\$ 397,218</u>	<u>\$ 352,654</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Other liabilities	\$ 704	\$ 646
Other borrowings	39,346	39,261
	<u>40,050</u>	<u>39,907</u>
Total liabilities	40,050	39,907
Shareholders' equity	357,168	312,747
	<u>397,218</u>	<u>352,654</u>
Total liabilities and shareholders' equity	<u>\$ 397,218</u>	<u>\$ 352,654</u>

**CONDENSED STATEMENTS OF INCOME**

Years ended December 31, 2020 and 2019

*(Dollars in thousands)*

	<b>2020</b>	<b>2019</b>
<b>INCOME:</b>		
Interest income	\$ —	\$ —
Merger termination fee	—	6,400
Total income	—	6,400
<b>EXPENSES:</b>		
Interest expense	2,334	2,341
Other operating expenses	1,625	2,755
Total expense	3,959	5,096
Income (loss) before equity in undistributed earnings of subsidiaries and income tax benefit	(3,959)	1,304
Income tax benefit (expense)	908	(389)
Income before equity in undistributed net income of subsidiaries	(3,051)	915
Equity in undistributed earnings of subsidiaries	27,383	25,633
Net income	<u>\$ 24,332</u>	<u>\$ 26,548</u>

**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2020 and 2019  
(Dollars in thousands)

	2020	2019
<b>Cash flows from operating activities:</b>		
Net income	\$ 24,332	\$ 26,548
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in undistributed income of subsidiary	(27,383)	(25,633)
Other assets	(2,417)	(1,894)
Other liabilities	143	712
Net cash used in operating activities	<u>(5,325)</u>	<u>(267)</u>
<b>Cash flows from investing activities:</b>		
Net cash paid for business combinations	(6,713)	—
Equity contribution from subsidiary	13,900	—
Net cash used in investing activities	<u>7,187</u>	<u>—</u>
<b>Cash flows from financing activities:</b>		
Issuance of common stock	339	438
Cash dividends paid	(2,986)	(700)
Repurchase of common stock	(4,308)	—
Net cash (used) provided by financing activities	<u>(6,955)</u>	<u>(262)</u>
<b>Net change in cash and cash equivalents</b>	<b>(5,093)</b>	<b>(529)</b>
Cash and cash equivalents, beginning of year	<u>13,155</u>	<u>13,684</u>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 8,062</u></b>	<b><u>\$ 13,155</u></b>

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

SmartFinancial maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms and that such information is accumulated and communicated to SmartFinancial’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. SmartFinancial carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of December 31, 2020. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2020, SmartFinancial’s disclosure controls and procedures were effective.

**Management’s Report on Internal Control over Financial Reporting**

The report of SmartFinancial’s management on internal control over financial reporting is set forth in Item 8 of this Annual Report on Form 10-K and incorporated herein by reference.

### Changes in Internal Controls

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

### ITEM 9B. OTHER INFORMATION

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The response to this Item is incorporated by reference to SmartFinancial’s proxy statement for the annual meeting of stockholders to be held May 27, 2021 under the headings “Proposal One Election of Directors,” “Security Ownership of Certain Beneficial Owners and Management,” “Corporate Governance and Board of Directors,” “Compensation of Directors and Executive Officers,” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

### ITEM 11. EXECUTIVE COMPENSATION

The response to this Item is incorporated by reference to SmartFinancial’s proxy statement for the annual meeting of stockholders to be held May 27, 2021 under the headings, “Proposal One Election of the Directors” and “Compensation of Directors and Executive Officers.”

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The responses to this Item will be included in SmartFinancial’s proxy statement for the annual meeting of stockholders to be held May 27, 2021 under the heading, “Security Ownership of Certain Beneficial Owners and Management.”

The following table summarizes information concerning SmartFinancial’s equity compensation plans at December 31, 2020:

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options</b>	<b>Weighted average exercise price of outstanding options</b>	<b>Number of securities remaining available for future issuance</b>
Equity compensation plans approved by security holders:			
2002 Long-Term Incentive Plan	30,500	\$ 6.67	—
Capstone Stock Option Plan	2,266	11.76	—
2015 Stock Incentive Plan	26,601	15.05	1,876,894
Equity compensation plans not approved by shareholders	40,250	9.54	—
Total	<u>99,617</u>	<u>\$ 10.19</u>	<u>1,876,894</u>

#### *Equity Compensation Plans not Approved by Shareholders*

During 2013 and 2014, Cornerstone issued non-qualified options to employees and directors. These non-qualified options are governed by the grant document issued to the holders. The non-qualified stock options for employees were issued at the market value of the common stock on the grant date and are fully vested. The non-qualified stock options for directors are issued at the market value of the common stock on the grant date and are fully vested. The term of all grants were determined by the compensation committee, not to exceed ten years. As of December 31, 2020, a total of 128,500 non-

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qualified stock options had been issued to Company employees and directors, of which 40,250 remained outstanding and exercisable.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The response to this Item is incorporated by reference to SmartFinancial’s proxy statement for the annual meeting of stockholders to be held May 27, 2021 under the heading, “Proposal One Election of Directors.”

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The response to this Item is incorporated by reference to SmartFinancial’s proxy statement for the annual meeting of stockholders to be held May 27, 2021 under the heading, “Proposal Two Ratification of Independent Registered Public Accountants.”

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this report:

(1) Financial Statements

The following report and consolidated financial statements of SmartFinancial and Subsidiary are included in Item 8:

Report of Independent Registered Public Accounting Firms  
Consolidated Balance Sheets as of December 31, 2020 and 2019  
Consolidated Statements of Income for the years ended December 31, 2020 and 2019  
Consolidated Statements of Comprehensive Income for the years ended December 31, 2020 and 2019  
Consolidated Statements of Changes in Stockholders’ Equity for the years ended December 31, 2020 and 2019  
Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019  
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

Schedule II: Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) The following documents are filed, furnished or incorporated by reference as exhibits to this report:

**Exhibit Index**

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
2.1	<a href="#">Agreement and Plan of Merger, dated as of October 29, 2019, by and between SmartFinancial, Inc. and Progressive Financial Group Inc.†</a>	Incorporated by reference to Exhibit 2.1 to Form 8-K filed October 30, 2019
3.1	<a href="#">Second Amended and Restated Charter of SmartFinancial, Inc.</a>	Incorporated by reference to Exhibit 3.3 to Form 8-K filed September 2, 2015
3.2	<a href="#">Second Amended and Restated Bylaws of SmartFinancial, Inc.</a>	Incorporated by reference to Exhibit 3.1 to Form 8-K filed October 26, 2015

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4.1	<a href="#">Description of SmartFinancial Capital Stock</a>	Filed herewith
4.2	<a href="#">Specimen Common Stock Certificate</a>	Incorporated by reference to Exhibit 4.2 to Form 10-K filed March 30, 2016
4.3	<a href="#">Form of Fixed-to-Floating Rate Subordinated Note due October 2, 2028</a>	Incorporated by reference to Exhibit 4.1 to Form 8-K filed October 1, 2018
10.1**	<a href="#">SmartFinancial, Inc. 2015 Stock Incentive Plan</a>	Incorporated by reference to Exhibit H to the Form S-4 filed April 16, 2015
10.2**	<a href="#">Form of 2015 Stock Incentive Agreement</a>	Incorporated by reference to Exhibit 10.2 to Form 10-K filed March 30, 2016
10.3**	<a href="#">SmartFinancial, Inc. 2010 Incentive Plan</a>	Incorporated by reference to Exhibit 10.6 to Form 8-K filed September 2, 2015
10.4**	<a href="#">Form of Incentive Stock Option Certificate under SmartFinancial, Inc. 2010 Incentive Plan</a>	Incorporated by reference to Exhibit 10.7 to Form 8-K filed September 2, 2015
10.5**	<a href="#">SmartBank Stock Option Plan</a>	Incorporated by reference to Exhibit 10.5 to Form 8-K filed September 2, 2015
10.6**	<a href="#">Form of Management Incentive Stock Option Agreement under SmartBank Stock Option Plan</a>	Incorporated by reference to Exhibit 10.8 to Form 8-K filed September 2, 2015
10.7	<a href="#">Form of Subscription Agreement for 2015 Equity Financing</a>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed August 20, 2015
10.8	<a href="#">Form of Registration Rights Agreement for 2015 Equity Financing</a>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed August 20, 2015
10.9**	<a href="#">Cornerstone Bancshares, Inc. 2002 Long-Term Incentive Plan</a>	Incorporated by reference to Exhibit 99.1 to Form S-8 filed on March 5, 2004
10.10**	<a href="#">Form of Unqualified Stock Option Award Agreement under 2002 Long-Term Incentive Plan</a>	Incorporated by reference to Exhibit 10.22 to Form 10-K filed March 30, 2016
10.11**	<a href="#">Form of Stock Appreciation Rights Agreement</a>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed August 8, 2017
10.12**	<a href="#">Form of Restricted Stock Award Agreement</a>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed August 8, 2017
10.13**	<a href="#">Employment Agreement, dated as of May 22, 2017, by and between SmartBank and Robert Kuhn</a>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed November 7, 2017
10.14*	<a href="#">Capstone Bancshares, Inc. 2008 Long-Term Equity Incentive Plan</a>	Incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 7, 2017
10.15*	<a href="#">Form of Award Agreement under Capstone Bancshares, Inc. 2008 Long-Term Incentive Plan</a>	Incorporated by reference to Exhibit 10.3 to Form 8-K filed November 7, 2017
10.16*	<a href="#">Salary Continuation Agreement, dated August 11, 2010, by and between Capstone Bank and Robert W. Kuhn</a>	Incorporated by reference to Exhibit 10.4 to Form 8-K filed November 7, 2017

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10.17	<a href="#">Form of Subordinated Note Purchase Agreement dated September 28, 2018, for SmartFinancial, Inc. Fixed-to-Floating Rate Subordinate Notes due October 2, 2028</a>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed October 1, 2018
10.18**	<a href="#">Executive Change in Control Agreement with W. Miller Welborn, dated as of March 9, 2020</a>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed March 11, 2020
10.19**	<a href="#">Employment Agreement with William Y. Carroll, Jr., dated as of March 9, 2020</a>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed March 11, 2020
10.20**	<a href="#">Employment Agreement with Ronald J. Gorczynski, dated as of March 9, 2020</a>	Incorporated by reference to Exhibit 10.3 to Form 8-K filed March 11, 2020
10.21	<a href="#">Loan and Security Agreement, dated as of March 31, 2020, by and between SmartFinancial, Inc., as Borrower, and ServisFirst Bank, as Lender</a>	Incorporated by reference to Exhibit 10.1 to Form 8-K filed April 3, 2020
10.22	<a href="#">Revolving Note, dated as of March 31, 2020, by and between SmartFinancial, Inc., as Borrower, and ServisFirst Bank, as Lender</a>	Incorporated by reference to Exhibit 10.2 to Form 8-K filed April 3, 2020
10.23	<a href="#">Pledge Agreement, dated as of March 31, 2020, by and between SmartFinancial, Inc., as Borrower, and ServisFirst Bank, as Lender</a>	Incorporated by reference to Exhibit 10.3 to Form 8-K filed April 3, 2020
21.1	<a href="#">SmartFinancial, Inc. List of Subsidiaries</a>	Filed herewith
23.1	<a href="#">Consent of Dixon Hughes Goodman LLP</a>	Filed herewith
31.1	<a href="#">Certification of Principal Executive Officer</a>	Filed herewith
31.2	<a href="#">Certification of Principal Financial Officer</a>	Filed herewith
32.1	<a href="#">Section 906 certification of Principal Executive Officer</a>	Filed herewith
32.2	<a href="#">Section 906 certification of Principal Financial Officer</a>	Filed herewith
101.INS*	Inline XBRL Instance Document	Filed herewith
101.SCH*	Inline XBRL Taxonomy Extension Schema	Filed herewith
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase	Filed herewith
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	

† Schedules and exhibits to which have been omitted pursuant to Items 601(b)(2) of Regulations S-K. SmartFinancial agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission.

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities and Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.

\*\* Indicates management contract or compensatory plan or arrangement

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 16, 2021 By: /s/ William Y. Carroll, Jr.  
William Y. Carroll, Jr.  
President and Chief Executive Officer and Director  
(principal executive officer)

By: /s/ Ron Gorczynski  
Ron Gorczynski  
Executive Vice President and Chief Financial Officer  
(principal financial officer and accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William Y. Carroll, Jr.</u> William Y. Carroll, Jr. (Principal Executive Officer)	President and Chief Executive Officer and Director	March 16, 2021
<u>/s/ Ron Gorczynski</u> Ron Gorczynski (Principal Financial Officer and Principal Accounting Officer)	Executive Vice President and Chief Financial Officer	March 16, 2021
<u>/s/ Victor L. Barrett</u> Victor L. Barrett	Director	March 16, 2021
<u>/s/ Monique P. Berke</u> Monique P. Berke	Director	March 16, 2021
<u>/s/ William Y. Carroll, Sr.</u> William Y. Carroll, Sr.	Director	March 16, 2021
<u>/s/ David A. Ogle</u> Frank S. McDonald	Director	March 16, 2021
<u>/s/ Ted C. Miller</u> Ted C. Miller	Director	March 16, 2021
<u>/s/ Miller Welborn</u> Miller Welborn	Director	March 16, 2021

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<u>/s/ Keith E. Whaley</u> Keith E. Whaley	Director	March 16, 2021
<u>/s/ Geoffrey A. Wolpert</u> Geoffrey A. Wolpert	Director	March 16, 2021
<u>/s/ Steven B. Tucker</u> Steven B. Tucker	Director	March 16, 2021
<u>/s/ Ottis Phillips</u> Ottis Phillips	Director	March 16, 2021

## DESCRIPTION OF CAPITAL STOCK

The material terms and provisions of the capital stock of SmartFinancial, Inc. (the “Company” or “SMBK”) are summarized as set forth below. The following summary is not intended to be relied upon as an exhaustive list or a detailed description of the provisions discussed and is qualified in its entirety by the Tennessee Business Corporation Act (the “TBCA”) and by the Second Amended and Restated Charter (the “Charter”) and Second Amended and Restated Bylaws (as amended, the “Bylaws”) of the Company.

### General

We are authorized to issue 42,000,000 shares of capital stock of which 40,000,000 are shares of common stock, par value \$1.00 per share, and 2,000,000 are shares of preferred stock, par value \$1.00 per share. As of March 8, 2021, there were 15,113,045 shares of common stock outstanding and no shares of preferred stock issued and outstanding.

### Common Stock

*General.* Each share of SMBK common stock has the same relative rights as, and is identical in all respects to, each other share of SMBK common stock. SMBK’s common stock is traded on the NASDAQ Capital Market under the symbol “SMBK.”

*Voting Rights; Cumulative Voting.* The outstanding shares of SMBK common stock are fully paid and nonassessable. Holders of SMBK common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the shareholders. Holders of SMBK common stock do not have preemptive rights and are not entitled to cumulative voting rights with respect to the election of directors. SMBK’s common stock is neither redeemable nor convertible into other securities, and there are no sinking fund provisions with respect to the common stock.

Subject to the preferences applicable to any shares of SMBK preferred stock outstanding at the time, holders of common stock are entitled to, in the event of liquidation, share pro rata in all assets remaining after payment of liabilities.

*Board of Directors.* The business of SMBK is controlled by a board of directors, which is elected by a non-cumulative vote of the common shareholders. SMBK’s bylaws provide that the power to increase or decrease the number of directors and to fill vacancies is vested in SMBK’s board of directors. The overall effect of this provision may be to prevent a person or entity from seeking to acquire control of SMBK through an increase in the number of directors on the board of directors and the election of designated nominees to fill newly created vacancies.

*Dividends.* Holders of SMBK common stock are entitled to receive dividends when, as and if declared by SMBK’s board of directors out of funds legally available for dividends. In order to pay any dividends, SMBK generally must receive dividends from SmartBank. Under the Tennessee Banking Act, SmartBank is subject to restrictions on the payment of dividends to SMBK. Pursuant to these laws, SmartBank may only make a dividend from the surplus profits arising from the business of the bank, and may not declare dividends in any calendar year that exceeds the total of its retained net income of that year combined with its retained net income of the preceding two years without the prior approval of the commissioner of the Tennessee Department of Financial Institutions (the “TDFI”). Moreover, Tennessee laws regulating SmartBank requires certain charges against and transfers from SmartBank’s undivided profit account before undivided profits can be made available for the payment of dividends. Furthermore, the TDFI also has the authority to prohibit the payment of dividends by SmartBank if it determines such payment to be an unsafe and unsound banking practice. SMBK’s ability to pay dividends to shareholders in the future will depend on its earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, SMBK’s ability to service any equity or debt obligations senior to SMBK’s common stock and other factors deemed relevant by SMBK’s board of directors.

The principal source of funds from which SMBK pays cash dividends are the dividends received from its bank subsidiary, SmartBank. Consequently, dividends are dependent upon SmartBank’s earnings, capital needs, and regulatory policies, as well as statutory and regulatory limitations. Federal and state banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Approval by SMBK’s regulators

is required if the total of all dividends declared in any calendar year exceeds the total of its net income for that year combined with its retained net income of the preceding two years.

Under certain conditions, dividends paid to SMBK by SmartBank are subject to approval by the TDFI. In addition, under the Federal Deposit Insurance Corporation Improvement Act, banks may not pay a dividend if, after paying the dividend, the bank would be undercapitalized.

*Preemptive Rights; Liquidation; Redemption.* SMBK common stock does not carry any preemptive rights enabling a holder to subscribe for or receive shares of SMBK common stock. In the event of liquidation, holders of SMBK common stock are entitled to share in the distribution of assets remaining after payment of debts and expenses and after required payments to holders of SMBK preferred stock, if any such shares are outstanding. There are no redemption or sinking fund provisions applicable to SMBK common stock.

### **Preferred Stock**

Under the terms of our Charter, the Company has authorized the issuance of up to 2,000,000 shares of preferred stock, par value \$1.00 per share, any part or all of which shares may be established and designated from time to time by the board of directors by filing an amendment to the Charter, which is effective without shareholder action. If we offer preferred stock, we will file the terms of the preferred stock with the SEC, and the prospectus supplement relating to that offering will include a description of the specific terms of the offerings. Our Charter authorizes our board of directors to establish one or more series of preferred stock, and to establish such preferences, limitations and relative rights as may be applicable to each series of preferred stock. The issuance of preferred stock and the determination of the terms of preferred stock by the board of directors, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of our common stock. This summary does not purport to be complete and is qualified in its entirety by reference to the Amended and Restated Charter and Bylaws of SMBK and the TBCA.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC.

### **Anti-Takeover Provisions**

*General.* Our charter and bylaws, as well as the TBCA, contain certain provisions designed to enhance the ability of our board of directors to deal with attempts to acquire control of us. These provisions may be deemed to have an anti-takeover effect and may discourage takeover attempts which have not been approved by the board of directors (including takeovers which certain shareholders may deem to be in their best interest). To the extent that such takeover attempts are discouraged, temporary fluctuations in the market price of common stock resulting from actual or rumored takeover attempts may be inhibited. These provisions also could discourage or make more difficult a merger, tender offer or proxy contest, even though such transaction may be favorable to the interests of shareholders, and could potentially adversely affect the market price of our common stock.

The following briefly summarizes protective provisions that are contained in our charter and bylaws and which are provided by the TBCA. This summary is necessarily general and is not intended to be a complete description of all the features and consequences of those provisions and is qualified in its entirety by reference to our charter and bylaws and the statutory provisions contained in the TBCA.

*Authorized but Unissued Stock.* The authorized but unissued shares of common stock and preferred stock will be available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future private or public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued and unreserved shares of common stock and preferred stock may enable the board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage any attempt to obtain control of us by means such as a proxy contest, tender offer, or merger, and thereby protect the continuity of the company's management.

*Removal of Directors and Filling Vacancies.* Our charter and bylaws provide that a director may be removed from office prior to the expiration of such director's term only for cause at a meeting called for such purpose. Our bylaws provide that all vacancies on our board may be filled by the board of directors for the unexpired term.

*Advance Notice Requirements for Shareholder Proposals.* Our bylaws establish advance notice procedures with regard to shareholder proposals. These procedures provide that the shareholder must submit certain information regarding the proposal, together with the proposal itself, to our corporate secretary in advance of the annual meeting. Shareholders submitting proposals for inclusion in our proxy statement must comply with the proxy rules under the Exchange Act. We may reject a shareholder proposal that is not made in accordance with such procedures.

*Certain Nomination Requirements.* Pursuant to our bylaws, we have established certain nomination requirements for an individual to be elected as a director at any annual or special meeting of the shareholders, including that the nominating party provide us within a specified time prior to the meeting (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of SMBK stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the board of directors; and (v) the consent of each nominee to serve as a director of the Company if so elected. These provisions could reduce the likelihood that a third party would nominate and elect individuals to serve on our board of directors.

*Business Combinations with Interested Shareholders.* The Tennessee business combinations statute provides that a 10% or greater shareholder of a resident domestic corporation cannot engage in a "business combination" (as defined in the statute) with such corporation for a period of two years following the date on which the 10% shareholder became such, unless the business combination or the acquisition of shares is approved by a majority of the disinterested members of such corporation's board of directors before the 10% shareholder's share acquisition date. This statute further provides that at no time (even after the two-year period subsequent to such share acquisition date) may the 10% shareholder engage in a business combination with the relevant corporation unless certain approvals of the board of directors or disinterested shareholders are obtained or unless the consideration given in the combination meets certain minimum standards set forth in the statute. The law is very broad in its scope and is designed to inhibit unfriendly acquisitions, but it does not apply to corporations whose charter contains a provision electing not to be covered by the law. Our charter does not contain such a provision. An amendment of our charter to that effect would, however, permit a business combination with an interested shareholder even though that status was obtained prior to the amendment.

*Indemnification.* The TBCA provides that a corporation may indemnify any of its directors and officers against liability incurred in connection with a proceeding if (i) the director or officer acted in good faith, (ii) in the case of conduct in his or her official capacity with the corporation, the director or officer reasonably believed such conduct was in the corporation's best interest, (iii) in all other cases, the director or officer reasonably believed that his or her conduct was not opposed to the best interest of the corporation, and (iv) in connection with any criminal proceeding, the director or officer had no reasonable cause to believe that his or her conduct was unlawful. In actions brought by or in the right of the corporation, however, the TBCA provides that no indemnification may be made if the director or officer was adjudged to be liable to the corporation. In cases where the director or officer is wholly successful, on the merits or otherwise, in the defense of any proceeding instigated because of his or her status as an officer or director of a corporation, the TBCA mandates that the corporation indemnify the director or officer against reasonable expenses incurred in the proceeding. The TBCA also provides that in connection with any proceeding charging improper personal benefit to an officer or director, no indemnification may be made if such officer or director is adjudged liable on the basis that personal benefit was improperly received. Notwithstanding the foregoing, the TBCA provides that a court of competent jurisdiction, upon application, may order that an officer or director be indemnified for reasonable expenses if, in consideration of all relevant circumstances, the court determines that such individual is fairly and reasonably entitled to indemnification, notwithstanding the fact that (i) such officer or director was adjudged liable to the corporation in a proceeding by or in right of the corporation, (ii) such officer or director

was adjudged liable on the basis that personal benefit was improperly received by him; or (iii) such officer or director breached his duty of care to the corporation.

The TBCA also empowers a corporation to provide insurance for directors and officers against liability arising out of their positions, even though the insurance coverage may be broader than the corporation's power to indemnify. SMBK maintains directors' and officers' liability insurance for the benefit of its directors and officers.

Our bylaws provide that the company will indemnify, to the fullest extent authorized by the TBCA and applicable federal law or regulations, any person who is made a party to or is involved in any proceeding by reason of the fact that he or she is or was a director or officer of SMBK, provided that the basis of such proceeding is alleged action in an official capacity as a director or officer.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling SMBK pursuant to the provisions discussed above, SMBK has been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Certain rules of the FDIC limit the ability of certain depository institutions, their subsidiaries and their affiliated depository institution holding companies to indemnify affiliated parties, including institution directors. In general, subject to the ability to purchase directors and officers liability insurance and to advance professional expenses under certain circumstances, the rules prohibit such institutions from indemnifying a director for certain costs incurred with regard to an administrative or enforcement action commenced by any federal banking agency that results in a final order or settlement pursuant to which the director is assessed a civil money penalty, removed from office, prohibited from participating in the affairs of an insured depository institution or required to cease and desist from or take an affirmative action described in Section 8(b) of the Federal Deposit Insurance Act (12 U.S.C. § 1818(b)).

#### **Anti-Takeover Statutes**

In addition to certain of the provisions in our charter discussed above, the State of Tennessee has adopted statutes that can have an anti-takeover effect and may delay or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for shares of our common stock.

*Tennessee Control Share Acquisition Act.* The Tennessee Control Share Acquisition Act generally provides that, except as stated below, "control shares" will not have any voting rights. Control shares are shares acquired by a person under certain circumstances which, when added to their shares owned, would give such person effective control over one-fifth or more, or a majority of all voting power (to the extent such acquired shares cause such a person to exceed one-fifth or one-third of all voting power) in the election of a Tennessee corporation's directors. However, voting rights will be restored to control shares by resolutions approved by the affirmative vote of the holders of a majority of the corporation's voting stock, other than shares held by the owner of the control shares. If voting rights are granted to control shares which give the holder a majority of all voting power in the election of the corporation's directors, then the corporation's other shareholders may require the corporation to redeem their shares at fair value.

The Tennessee Control Share Acquisition Act is not applicable to us because our charter does not contain a specific provision "opting in" to the act, as is required.

*Tennessee Investor Protection Act.* The Tennessee Investor Protection Act provides that unless a Tennessee corporation's board of directors has recommended a takeover offer to shareholders, no offeror beneficially owning 5% or more of any class of equity securities of the offeree company, any of which was purchased within the preceding year, may make a takeover offer for any class of equity security of the offeree company if after completion the offeror would be a beneficial owner of more than 10% of any class of outstanding equity securities of the company unless the offeror, before making such purchase: (1) makes a public announcement of his or her intention with respect to changing or influencing the management or control of the offeree company; (2) makes a full, fair and effective disclosure of such intention to the person from whom he or she intends to acquire such securities; and (3) files with

the Tennessee Commissioner of Commerce and Insurance, or Commissioner, and the offeree company a statement signifying such intentions and containing such additional information as may be prescribed by the Commissioner.

The offeror must provide that any equity securities of an offeree company deposited or tendered pursuant to a takeover offer may be withdrawn by an offeree at any time within seven days from the date the offer has become effective following filing with the Commissioner and the offeree company and public announcement of the terms or after 60 days from the date the offer has become effective. If the takeover offer is for less than all the outstanding equity securities of any class, such an offer must also provide for acceptance of securities pro rata if the number of securities tendered is greater than the number the offeror has offered to accept and pay for. If such an offeror varies the terms of the takeover offer before its expiration date by increasing the consideration offered to offerees, the offeror must pay the increased consideration for all equity securities accepted, whether accepted before or after the variation in the terms of the offer.

The Tennessee Investor Protection Act does not apply to us, as it does not apply to bank holding companies subject to regulation by a federal agency and does not apply to any offer involving a vote by holders of equity securities of the offeree company.

*TBCA.* The Tennessee Business Combination Act generally prohibits a “business combination” by a company or any of our subsidiaries with an “interested shareholder” within five years after the shareholder becomes an interested shareholder. The company or any of its subsidiaries can, however, enter into a business combination within that period if, before the interested shareholder became such, the company’s board of directors approved the business combination or the transaction in which the interested shareholder became an interested shareholder. After that five-year moratorium, the business combination with the interested shareholder can be consummated only if it satisfies certain fair price criteria or is approved by two-thirds (2/3) of the other shareholders.

For purposes of these provisions of the Tennessee Business Combination Act, a “business combination” includes mergers, share exchanges, sales and leases of assets, issuances of securities, and similar transactions. An “interested shareholder” is generally any person or entity that beneficially owns 10% or more of the voting power of any outstanding class or series of our stock.

*Tennessee Greenmail Act.* The Tennessee Greenmail Act applies to a Tennessee corporation that has a class of voting stock registered or traded on a national securities exchange or registered with the SEC pursuant to Section 12(g) of the Exchange Act. Under the Tennessee Greenmail Act, a company may not purchase any of its shares at a price above the market value of such shares from any person who holds more than 3% of the class of securities to be purchased if such person has held such shares for less than two years, unless the purchase has been approved by the affirmative vote of a majority of the outstanding shares of each class of voting stock issued by the company or the company makes an offer, or at least equal value per share, to all shareholders of such class.

*Bank Holding Company Act.* The Bank Holding Company Act requires any “bank holding company,” as defined in the Bank Holding Company Act, to obtain the approval of the Federal Reserve Board prior to the acquisition of 5% or more of our common stock. Any person, other than a bank holding company, is required to obtain prior approval of the Federal Reserve Board to acquire 10% or more of our common stock under the Change in Bank Control Act. Any holder of 25% or more of our common stock, or a holder of 5% or more if such holder otherwise exercises a “controlling influence” over us, is subject to regulation as a bank holding company under the Bank Holding Company Act.

**SmartFinancial, Inc.****List of Subsidiaries**

<b>Name of Subsidiary</b>	<b>State of Incorporation</b>
SmartBank	Tennessee
Smart Investments Management, Inc.	Tennessee
Smartholdings I, LLC	Tennessee
Smartholdings II, LLC	Tennessee
Rains Agency, Inc.	Tennessee

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## Consent of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
SmartFinancial, Inc.

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-219159, 333203449, 333-208819, 333-131006, and 333-113314, etc.) and on Form S-3 (Nos. 333-214802, 333-208700, and 333-239479) of SmartFinancial, Inc. (the "Company") and its subsidiary of our reports dated March 16, 2021, with respect to the consolidated financial statements of SmartFinancial, Inc. and its subsidiary and the effectiveness of internal control over financial reporting, which reports appear in SmartFinancial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020.

**/s/ Dixon Hughes Goodman LLP**

**Atlanta, Georgia**  
**March 16, 2021**

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## CERTIFICATIONS

I, William Y. Carroll, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officer 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 the Registrant’s board of directors (or persons performing the 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: March 16, 2021

/s/ William Y. Carroll, Jr.

William Y. Carroll Jr.

President and Chief Executive Officer and Director

(principal executive officer)

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## CERTIFICATIONS

I, Ronald J. Gorczynski, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officer 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 the Registrant’s board of directors (or persons performing the 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: March 16, 2021

/s/ Ronald J. Gorczynski

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Ronald J. Gorczynski

Executive Vice President and Chief Financial Officer  
(principal financial and accounting officer)

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

In connection with the Annual Report of SmartFinancial, Inc. (the "Company") on Form 10-K for the fiscal year ended December 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: March 16, 2021

/s/ William Y. Carroll, Jr.

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William Y. Carroll Jr.

President and Chief Executive Officer and Director

(principal executive officer)

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

In connection with the Annual Report of SmartFinancial, Inc. (the "Company") on Form 10-K for the fiscal year ended December 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: March 16, 2021

/s/ Ronald J. Gorczynski

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Ronald J. Gorczynski

Executive Vice President and Chief Financial Officer

(principal financial and accounting officer)

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