

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

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

For the transition period from _____ to _____

Commission File Number: **001-37661**



SmartFinancial, Inc.

(Exact name of registrant as specified in its charter)

Tennessee	62-1173944
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5401 Kingston Pike, Suite 600 Knoxville, Tennessee	37919
(Address of principal executive offices)	(Zip Code)
865-437-5700	Not Applicable
(Registrant's telephone number, including area code)	(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Yes No

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

Yes No

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

Large accelerated

filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

Yes No

As of November 5, 2021, there were 16,802,080 shares of common stock, \$1.00 par value per share, issued and outstanding.

TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>		
<u>Item 1.</u>	<u>Consolidated Financial Statements (Unaudited)</u>	3
	<u>Consolidated Balance Sheets at September 30, 2021 and December 31, 2020</u>	3
	<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2021 and 2020</u>	4
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2021 and 2020</u>	5
	<u>Consolidated Statements of Changes in Shareholders’ Equity for the Three and Nine Months Ended September 30, 2021 and 2020</u>	6
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2021 and 2020</u>	7
	<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	41
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	56
<u>Item 4.</u>	<u>Controls and Procedures</u>	56
<u>PART II – OTHER INFORMATION</u>		57
<u>Item 1.</u>	<u>Legal Proceedings</u>	57
<u>Item 1A.</u>	<u>Risk Factors</u>	57
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	57
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	58
<u>Item 5.</u>	<u>Other Information</u>	58
<u>Item 6.</u>	<u>Exhibits</u>	59

PART I – FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) September 30, 2021	December 31, 2020*
ASSETS:		
Cash and due from banks	\$ 79,827	\$ 50,460
Interest-bearing deposits with banks	969,929	364,846
Federal funds sold	41,404	66,413
Total cash and cash equivalents	1,091,160	481,719
Securities available-for-sale, at fair value	339,343	215,634
Other investments	14,972	14,794
Loans held for sale	3,418	11,721
Loans and leases	2,652,663	2,382,243
Less: Allowance for loan and lease losses	(19,295)	(18,346)
Loans and leases, net	2,633,368	2,363,897
Premises and equipment, net	85,346	72,682
Other real estate owned	2,415	4,619
Goodwill and other intangibles, net	104,930	86,471
Bank owned life insurance	79,145	31,215
Other assets	29,934	22,197
Total assets	<u>\$ 4,384,031</u>	<u>\$ 3,304,949</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits:		
Noninterest-bearing demand	\$ 977,180	\$ 685,957
Interest-bearing demand	847,007	649,129
Money market and savings	1,389,393	919,631
Time deposits	585,692	550,498
Total deposits	3,799,272	2,805,215
Borrowings	88,748	81,199
Subordinated debt	41,909	39,346
Other liabilities	29,382	22,021
Total liabilities	3,959,311	2,947,781
Shareholders' equity:		
Preferred stock, \$1 par value; 2,000,000 shares authorized; No shares issued and outstanding	—	—
Common stock, \$1 par value; 40,000,000 shares authorized; 16,801,447 and 15,107,214 shares issued and outstanding, respectively	16,801	15,107
Additional paid-in capital	292,760	252,693
Retained earnings	112,600	87,185
Accumulated other comprehensive income	2,559	2,183
Total shareholders' equity	424,720	357,168
Total liabilities and shareholders' equity	<u>\$ 4,384,031</u>	<u>\$ 3,304,949</u>

* Derived from audited financial statements.

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

[Table of Contents](#)

SMARTFINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Interest income:				
Loans and leases, including fees	\$ 31,674	\$ 28,621	\$ 88,015	\$ 83,718
Securities available-for-sale:				
Taxable	832	546	2,472	1,813
Tax-exempt	331	364	894	1,064
Federal funds sold and other earning assets	474	327	1,074	1,206
Total interest income	33,311	29,858	92,455	87,801
Interest expense:				
Deposits	2,153	2,897	6,733	11,016
Borrowings	121	334	360	674
Subordinated debt	655	584	1,823	1,751
Total interest expense	2,929	3,815	8,916	13,441
Net interest income	30,382	26,043	83,539	74,360
Provision for loan and lease losses	1,149	2,634	1,211	8,683
Net interest income after provision for loan and lease losses	29,233	23,409	82,328	65,677
Noninterest income:				
Service charges on deposit accounts	1,220	892	3,278	2,370
Gain (loss) on sale of securities	45	(9)	45	6
Mortgage banking	994	1,029	3,238	2,544
Investment services	448	359	1,546	1,159
Insurance commissions	745	560	2,768	1,302
Interchange and debit card transaction fees, net	1,078	868	2,839	1,652
Other	1,779	422	3,429	1,417
Total noninterest income	6,309	4,121	17,143	10,450
Noninterest expense:				
Salaries and employee benefits	13,594	11,032	36,666	31,395
Occupancy and equipment	2,536	2,186	7,170	6,093
FDIC insurance	525	534	1,266	894
Other real estate and loan related expense	407	643	1,514	1,535
Advertising and marketing	235	253	654	653
Data processing and technology	1,753	1,131	4,642	3,293
Professional services	810	594	2,300	2,172
Amortization of intangibles	711	402	1,597	1,169
Merger related and restructuring expenses	464	290	939	3,863
Other	2,274	2,102	6,822	5,699
Total noninterest expense	23,309	19,167	63,570	56,766
Income before income tax expense	12,233	8,363	35,901	19,361
Income tax expense	2,633	1,968	7,767	4,059
Net income	\$ 9,600	\$ 6,395	\$ 28,134	\$ 15,302
Earnings per common share:				
Basic	\$ 0.62	\$ 0.42	\$ 1.85	\$ 1.03
Diluted	\$ 0.61	\$ 0.42	\$ 1.84	\$ 1.02
Weighted average common shares outstanding:				
Basic	15,557,528	15,160,579	15,192,919	14,903,757
Diluted	15,691,126	15,210,611	15,312,755	14,965,455

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 9,600	\$ 6,395	\$ 28,134	\$ 15,302
Other comprehensive income:				
Unrealized holding gains (losses) on securities available-for-sale arising during the period	284	77	(971)	2,980
Tax effect	(74)	(142)	264	(779)
Reclassification adjustment for realized (gains) losses included in net income	(45)	(9)	(45)	6
Tax effect	12	2	12	(2)
Unrealized gains (losses) on securities available-for-sale arising during the period, net of tax	177	(72)	(740)	2,205
Unrealized gains (losses) on fair value municipal security hedges	59	538	1,510	(1,843)
Tax effect	(15)	(46)	(394)	482
Unrealized gains (losses) on fair value municipal security hedge instruments arising during the period, net of tax	44	492	1,116	(1,361)
Total other comprehensive income	221	420	376	844
Comprehensive income	<u>\$ 9,821</u>	<u>\$ 6,815</u>	<u>\$ 28,510</u>	<u>\$ 16,146</u>

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

[Table of Contents](#)

SMARTFINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - (Unaudited)
For the Three and Nine Months Ended September 30, 2021 and 2020
(Dollars in thousands, except for share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount				
Balance, December 31, 2019	14,008,233	\$ 14,008	\$ 232,732	\$ 65,839	\$ 168	\$ 312,747
Net income	—	—	—	15,302	—	15,302
Other comprehensive income	—	—	—	—	844	844
Common stock issued pursuant to:						
Exercise of stock options	27,858	28	254	—	—	282
Restricted stock	36,113	36	(36)	—	—	—
Shareholders' of Progressive Financial Group, Inc.	1,292,578	1,293	23,254	—	—	24,547
Stock compensation expense	—	—	365	—	—	365
Common stock dividend (\$0.15 per share)	—	—	—	(2,223)	—	(2,223)
Repurchases of common stock	(131,555)	(132)	(1,943)	—	—	(2,075)
Balance, September 30, 2020	<u>15,233,227</u>	<u>\$ 15,233</u>	<u>\$ 254,626</u>	<u>\$ 78,918</u>	<u>\$ 1,012</u>	<u>\$ 349,789</u>
Balance, December 31, 2020	15,107,214	\$ 15,107	\$ 252,693	\$ 87,185	\$ 2,183	\$ 357,168
Net income	—	—	—	28,134	—	28,134
Other comprehensive income	—	—	—	—	376	376
Common stock issued pursuant to:						
Exercise of stock options	19,165	19	175	—	—	194
Restricted stock	43,143	43	(43)	—	—	—
Shareholders' of Sevier County Bancshares, Inc.	1,691,535	1,691	40,563	—	—	42,254
Stock compensation expense	—	—	521	—	—	521
Common stock dividend (\$0.18 per share)	—	—	—	(2,719)	—	(2,719)
Repurchases of common stock	(59,610)	(59)	(1,149)	—	—	(1,208)
Balance, September 30, 2021	<u>16,801,447</u>	<u>\$ 16,801</u>	<u>\$ 292,760</u>	<u>\$ 112,600</u>	<u>\$ 2,559</u>	<u>\$ 424,720</u>
Balance, June 30, 2020	15,216,932	\$ 15,217	\$ 254,396	\$ 73,283	\$ 592	\$ 343,488
Net income	—	—	—	6,395	—	6,395
Other comprehensive income	—	—	—	—	420	420
Common stock issued pursuant to:						
Exercise of stock options	12,500	12	92	—	—	104
Restricted stock	3,795	4	(4)	—	—	—
Stock compensation expense	—	—	142	—	—	142
Common stock dividend (\$0.05 per share)	—	—	—	(760)	—	(760)
Repurchases of common stock	—	—	—	—	—	—
Balance, September 30, 2020	<u>15,233,227</u>	<u>\$ 15,233</u>	<u>\$ 254,626</u>	<u>\$ 78,918</u>	<u>\$ 1,012</u>	<u>\$ 349,789</u>
Balance, June 30, 2021	15,109,736	\$ 15,110	\$ 252,039	\$ 103,906	\$ 2,338	\$ 373,393
Net income	—	—	—	9,600	—	9,600
Other comprehensive income	—	—	—	—	221	221
Common stock issued pursuant to:						
Stock awards	—	—	—	—	—	—
Exercise of stock options	—	—	—	—	—	—
Restricted stock	176	—	—	—	—	—
Shareholders' of Sevier County Bancshares, Inc.	1,691,535	1,691	40,563	—	—	42,254
Stock compensation expense	—	—	158	—	—	158
Common stock dividends (\$0.06 per share)	—	—	—	(906)	—	(906)
Balance, September 30, 2021	<u>16,801,447</u>	<u>\$ 16,801</u>	<u>\$ 292,760</u>	<u>\$ 112,600</u>	<u>\$ 2,559</u>	<u>\$ 424,720</u>

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

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

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 28,134	\$ 15,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,739	4,437
Accretion of fair value purchase accounting adjustments, net	(4,086)	(3,689)
Provision for loan and lease losses	1,211	8,683
Stock compensation expense	521	365
Gain from redemption and sale of securities available-for-sale	(45)	(6)
Deferred income tax expense (benefit)	731	(37)
Increase in cash surrender value of bank owned life insurance	(1,240)	(526)
Net losses from sale and write downs of other real estate owned	176	142
Net gains from mortgage banking	(3,238)	(2,544)
Origination of loans held for sale	(97,360)	(99,223)
Proceeds from sales of loans held for sale	108,901	96,330
Net (gain) from sale of branch	(137)	—
Net change in:		
Accrued interest receivable	2,074	(3,221)
Accrued interest payable	(125)	807
Other assets	(414)	1,850
Other liabilities	5,709	3,556
Net cash provided by operating activities	45,551	22,226
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	16,771	11,759
Proceeds from maturities and calls of securities available-for-sale	43,551	45,800
Proceeds from paydowns of securities available-for-sale	21,550	18,622
Proceeds from sales of other investments	436	—
Purchases of securities available-for-sale	(145,316)	(81,893)
Purchases of other investments	(80)	(1,223)
Purchases of bank owned life insurance	(40,000)	—
Proceeds from bank owned life insurance benefits	427	—
Net (increase) decrease in loans and leases	4,444	(316,075)
Purchases of premises and equipment	(603)	(4,450)
Proceeds from sale of other real estate owned	2,171	875
Proceeds received from branch sale	83,745	—
Net cash received from business combinations	15,364	46,132
Net cash provided by (used in) investing activities	2,460	(280,453)
Cash flows from financing activities:		
Net increase in deposits	558,410	332,319
Net (increase) decrease in securities sold under agreements to repurchase	(351)	9
Proceeds from borrowings	7,500	338,340
Repayment borrowings	(396)	(50,581)
Cash dividends paid	(2,719)	(2,223)
Issuance of common stock	194	282
Repurchases of common stock	(1,208)	(2,075)
Net cash provided by financing activities	561,430	616,071
Net change in cash and cash equivalents	609,441	357,844
Cash and cash equivalents, beginning of period	481,719	183,971
Cash and cash equivalents, end of period	\$ 1,091,160	\$ 541,815
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 8,745	\$ 12,633
Cash paid during the period for income taxes	8,223	5,778
Noncash investing and financing activities:		
Acquisition of real estate through foreclosure	580	971
Change in goodwill due to acquisitions and sale of a portfolio of loans	15,849	9,316

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

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

Note 1. Presentation of Financial Information

Nature of Business:

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

Basis of Presentation and Accounting Estimates:

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

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are normal and recurring accruals considered necessary for a fair and accurate presentation. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease losses, the valuation of foreclosed assets and deferred taxes, other than temporary impairments of securities, the fair value of financial instruments, goodwill, and the fair value of assets acquired, and liabilities assumed in acquisitions. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes appearing in the Company's annual report on Form 10-K for the year ended December 31, 2020.

Recently Issued and Adopted Accounting Pronouncements:

In December 2019, the FASB issued ASU No. 2019-12, "*Simplifying the Accounting for Income Taxes.*" This ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. Finally, it clarifies that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements, but they could elect to do so. ASU 2019-12 is effective for interim and annual reporting periods beginning after December 15, 2020. ASU 2019-12 did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Not Yet Effective Accounting Pronouncements:

During interim periods, the Company follows the accounting policies set forth in its annual audited financial statements for the year ended December 31, 2020, as filed in its Annual Report on Form 10-K with the Securities and Exchange Commission ("SEC"). The following is a summary of recent authoritative pronouncements issued but not yet effective that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In October 2019, the Financial Accounting Standards Board approved a delay for the implementation of ASU 2016-13, *Financial Instruments - Credit Losses* (Topic 326). The Board decided that the Current Expected Credit Loss ("CECL") model 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

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

periods within those fiscal years. For calendar-year-end companies that are not SRCs, 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 SRCs and 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 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 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.

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 Act ("CARES Act") was passed by Congress and signed into law on March 27, 2020. The CARES Act provides an estimated \$2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. 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 Leases and Allowance for Loan and Lease 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. On December 27, 2020, the Consolidated Appropriations Act, 2021 ("CAA") was signed into law. The CAA provides several amendments to the PPP, including additional funding for first and second draws of PPP loans up to March 31, 2021. On March 30, 2021, the PPP Extension Act of 2021 was signed into law, which extends the program to May 31, 2021. The Company is a participant in the PPP. See Note 5 - *Loans and Leases and Allowance for Loan and Lease Losses* for more information.

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

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

payment deferrals, fee waivers, extensions of repayment terms, or insignificant delays in payment. See Note 5 - *Loans and Leases and Allowance for Loan and Lease Losses* for more information.

- *Past Due Reporting* - Regarding 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.

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. The December 31, 2020, deadline was subsequently extended to January 1, 2022, by the CAA. 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 2020 consolidated financial statements were reclassified to conform to the 2021 financial statement presentation. These reclassifications had no impact on net income or shareholders' equity as previously reported.

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

Note 2. Business Combinations

Sevier County Bancshares, Inc.

On September 1, 2021, the Company completed the acquisition of Sevier County Bancshares, Inc., a Tennessee corporation (“SCB”), pursuant to an Agreement and Plan of Merger dated April 13, 2021 (the “Merger Agreement”).

In connection with the merger, the Company acquired \$484.9 million of assets and assumed \$443.1 million of liabilities. Pursuant to the Merger Agreement, at the effective time of the merger, SCB shareholders were entitled to receive for each share of SCB common stock, no par value per share, outstanding immediately prior to the Merger, either (i) \$10.17 in cash (the “Per Share Cash Consideration”), or (ii) 0.4116 shares of Company common stock, par value \$1.00 (the “Per Share Stock Consideration”). Pursuant to the terms of the Merger Agreement, (i) each SCB shareholder holding 20,000 shares or more of SCB common stock will receive the Per Share Stock Consideration and (ii) each SCB shareholder holding fewer than 20,000 shares of SCB common stock may elect to receive either the Per Share Stock Consideration or the Per Share Cash Consideration. SmartFinancial issued 1,691,535 shares of SmartFinancial common stock and paid \$9.6 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 \$15.6 million, representing the intangible value of SCB’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 \$1.6 million using the effective yield method over 120 months (10 years), which represents the expected useful life of the asset.

The purchased assets and assumed liabilities were recorded at their acquisition date fair values ⁽¹⁾ and are summarized in the table below (in thousands).

	As recorded by SCB	Initial Fair value adjustments	Subsequent Adjustments	As recorded by the Company
Assets:				
Cash & cash equivalents	\$ 84,313	\$ —	\$ —	\$ 84,313
Investment securities available-for-sale	64,219	(614)	—	63,605
Restricted investments	533	—	—	533
Loans	304,620	(4,551)	—	300,069
Allowance for loan losses	(3,644)	3,644	—	—
Premises and equipment, net	15,579	(295)	—	15,284
Bank owned life insurance	7,116	—	—	7,116
Deferred tax asset, net	10,340	(4,007)	—	6,333
Core deposit intangible	—	1,550	—	1,550
Interest Receivable	884	—	—	884
Other assets	920	(272)	—	648
Total assets acquired	<u>\$ 484,880</u>	<u>\$ (4,545)</u>	<u>\$ —</u>	<u>\$ 480,335</u>
Liabilities:				
Deposits	\$ 435,036	\$ —	\$ —	\$ 435,036
Time deposit premium	—	888	—	888
Subordinated debt	2,500	—	—	2,500
Payables and other liabilities	5,563	115	—	5,678
Total liabilities assumed	<u>443,099</u>	<u>1,003</u>	<u>—</u>	<u>444,102</u>
Excess of assets acquired over liabilities assumed	<u>\$ 41,781</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 41,781</u>
Aggregate fair value adjustments	<u>—</u>	<u>\$ (5,548)</u>	<u>\$ —</u>	<u>\$ (5,548)</u>
Total identifiable net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,233</u>
Consideration transferred:				
Cash	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,568</u>
Common stock issued (1,691,535 shares)	<u>—</u>	<u>—</u>	<u>—</u>	<u>42,254</u>
Total fair value of consideration transferred	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,822</u>
Goodwill	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 15,589</u>

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

[Table of Contents](#)SMARTFINANCIAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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*):

	<u>September 1, 2021</u>
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	\$ 25,932
Non-accretable differences	4,203
Cash flows expected to be collected	21,729
Accretable yield	3,480
Fair value	<u>\$ 18,249</u>

The following table discloses the impact of the merger with SCB since the acquisition date through the three and nine months ended September 30, 2021. The table also presents certain pro-forma information (net interest income plus total noninterest income (“Revenue”) and net income) as if the SCB acquisition had occurred on January 1, 2020. The pro-forma financial information is not necessarily indicative of the results of operations had the acquisitions been effective as of these dates.

Merger-related costs for the three and nine months ended September 30, 2021, were \$445 thousand and \$683 thousand, respectively, and have been excluded from the pro-forma information presented below. The actual results and pro-forma information were as follows (*in thousands*):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>Revenue</u>	<u>Net Income</u>	<u>Revenue</u>	<u>Net Income</u>
2021:				
Actual SCB results included in statement of income since acquisition date	\$ 1,090	\$ 343	\$ 1,090	\$ 343
Supplemental consolidation pro-forma as if SCB had been acquired January 1, 2021	39,207	10,516	110,745	30,984
2020:				
Supplemental consolidation pro-forma as if SCB had been acquired January 1, 2020	\$ 32,965	\$ 6,624	\$ 93,213	\$ 16,473

Fountain Leasing, LLC

On May 3, 2021, the Company completed the acquisition of Fountain Leasing, LLC, a Tennessee limited liability company, pursuant to the Purchase Agreement (the “Purchase Agreement”), dated May 2, 2021, by and among the Bank and the members of Fountain Leasing, LLC. Following the closing of the acquisition, on May 4, 2021, the Company changed the name of Fountain Leasing, LLC to Fountain Equipment Finance, LLC (“Fountain”).

In connection with the acquisition, the Company acquired \$54.1 million of assets and assumed \$683 thousand of liabilities. Pursuant to the Purchase Agreement, the Company paid an aggregate amount of consideration to the Fountain members of \$14.0 million in cash at closing, and the Company repaid approximately \$45.8 million of Fountain’s indebtedness. In addition to the closing consideration, the Purchase Agreement contains a performance-based earnout, pursuant to which the former members of Fountain could be entitled to up to \$6.0 million, which is excluded from consideration pursuant to ASC 805, in future cash payments from the Company based on future results of the acquired business over various periods through December 31, 2026.

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 \$2.4 million, representing the intangible value of Fountains business and reputation within the markets it served. The goodwill recognized is expected to be deductible for income tax purposes. The Company established an intangible asset related to customer relationships of \$2.7 million, amortizing sum-of-the-years digits over 96 months (8 years).

[Table of Contents](#)

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

The purchased assets and assumed liabilities were recorded at their acquisition date fair values ⁽¹⁾ and are summarized in the table below (in thousands).

	As recorded by Fountain	Fair value adjustments	Subsequent Adjustments	As recorded by the Company
Assets:				
Cash & cash equivalents	\$ 413	\$ —	\$ —	\$ 413
Leases	54,945	(720)	—	54,225
Allowance for lease losses	(1,796)	1,796	—	—
Customer list intangible	—	2,658	—	2,658
Other repossessed assets	319	—	—	319
Other assets	233	—	—	233
Total assets acquired	<u>\$ 54,114</u>	<u>\$ 3,734</u>	<u>\$ —</u>	<u>\$ 57,848</u>
Liabilities:				
Payables and other liabilities	683	(229)	—	454
Total liabilities assumed	<u>683</u>	<u>(229)</u>	<u>—</u>	<u>454</u>
Excess of assets acquired over liabilities assumed	<u>\$ 53,431</u>			
Aggregate fair value adjustments		<u>\$ 3,963</u>	<u>\$ —</u>	
Total identifiable net assets				<u>57,394</u>
Consideration transferred:				
Cash				<u>59,794</u>
Total fair value of consideration transferred				<u>59,794</u>
Goodwill				<u>\$ 2,400</u>

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

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

	May 3, 2021
Accounted for pursuant to ASC 310-30:	
Contractually required principal and interest	\$ 6,018
Non-accretable differences	447
Cash flows expected to be collected	5,571
Accretable yield	649
Fair value	<u>\$ 4,922</u>

The following table discloses the impact of the merger with Fountain since the acquisition date through the three and nine months ended September 30, 2021. The table also presents certain pro-forma information (net interest income plus total noninterest income (“Revenue”) and net income) as if the Fountain acquisition had occurred on January 1, 2020. The pro-forma financial information is not necessarily indicative of the results of operations had the acquisitions been effective as of these dates.

Merger-related costs for the three and nine months ended September 30, 2021, were \$18 thousand and \$159 thousand, respectively, and have been excluded from the pro-forma information presented below. The actual results and pro-forma information were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Revenue	Net Income	Revenue	Net Income
2021:				
Actual Fountain results included in statement of income since acquisition date	\$ 1,696	\$ 357	\$ 2,834	\$ 702
Supplemental consolidation pro-forma as if Fountain had been acquired January 1, 2021	36,690	9,614	102,470	28,101
2020:				
Supplemental consolidation pro-forma as if Fountain had been acquired January 1, 2020	\$ 31,566	\$ 6,744	\$ 89,016	\$ 16,274

[Table of Contents](#)

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

Progressive Financial Inc.

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

In connection with the merger, the Company acquired \$301.0 million of assets and assumed \$272.1 million of liabilities. Pursuant to the Merger Agreement, each outstanding share of Progressive common stock was converted into and cancelled in exchange to the right to receive \$474.82 in cash, and 62.3808 shares of SmartFinancial common stock. SmartFinancial issued 1,292,578 shares of SmartFinancial common stock and paid \$9.8 million in cash as consideration for the Merger. The fair value of consideration paid exceeded the fair value of the identifiable assets and liabilities acquired and resulted in the establishment of goodwill in the amount of \$8.8 million, representing the intangible value of Progressive’s business and reputation within the markets it served. None of the goodwill recognized is expected to be deductible for income tax purposes. The Company is amortizing the related core deposit intangible of \$1.4 million using the effective yield method over 120 months (10 years), which represents the expected useful life of the asset. The Company 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 sum-of-the-years digits over 120 months (10 years), 2.) Tradename of \$63 thousand, amortizing straight-line over 60 months (5 years).

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
Assets:				
Cash & cash equivalents	\$ 55,971	\$ —	\$ —	\$ 55,971
Investment securities available-for-sale	27,054	203	—	27,257
Restricted investments	692	—	—	692
Loans	191,672	(3,691)	—	187,981
Allowance for loan losses	(2,832)	2,832	—	—
Premises and equipment, net	15,681	(2,919)	—	12,762
Bank owned life insurance	5,560	—	—	5,560
Deferred tax asset, net	—	813	193	1,006
Intangibles	—	1,370	1,127	2,497
Other real estate owned	3,695	(100)	(1,862)	1,733
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>\$ (542)</u>	<u>\$ 298,322</u>
Liabilities:				
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 acquired over liabilities assumed	<u>\$ 28,989</u>	<u>\$ (2,906)</u>	<u>\$ (542)</u>	<u>\$ 25,541</u>
Aggregate fair value adjustments		<u>\$ (2,906)</u>	<u>\$ (542)</u>	
Total identifiable net assets				<u>25,541</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>\$ 8,844</u>

[Table of Contents](#)

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

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*):

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

Note 3. Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common shareholders 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 no antidilutive shares for the three and nine months ended September 30, 2021. There were 114 thousand and 85 thousand antidilutive shares for the three and nine months ended September 30, 2020, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Basic earnings per share computation:				
Net income available to common shareholders	\$ 9,600	\$ 6,395	\$ 28,134	\$ 15,302
Average common shares outstanding – basic	15,557,528	15,160,579	15,192,919	14,903,757
Basic earnings per share	\$ 0.62	\$ 0.42	\$ 1.85	\$ 1.03
Diluted earnings per share computation:				
Net income available to common shareholders	\$ 9,600	\$ 6,395	\$ 28,134	\$ 15,302
Average common shares outstanding – basic	15,557,528	15,160,579	15,192,919	14,903,757
Incremental shares from assumed conversions:				
Stock options and restricted stock	133,598	50,032	119,836	61,698
Average common shares outstanding - diluted	15,691,126	15,210,611	15,312,755	14,965,455
Diluted earnings per common share	\$ 0.61	\$ 0.42	\$ 1.84	\$ 1.02

Note 4. Securities

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

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$ 93,910	\$ 176	\$ (61)	\$ 94,025
U.S. Government-sponsored enterprises (GSEs)	54,175	201	(913)	53,463
Municipal securities	93,422	2,179	(31)	95,570
Other debt securities	25,996	367	(72)	26,291
Mortgage-backed securities (GSEs)	68,837	1,339	(182)	69,994
Total	\$ 336,340	\$ 4,262	\$ (1,259)	\$ 339,343

[Table of Contents](#)

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

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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
Total	\$ 211,614	\$ 4,221	\$ (201)	\$ 215,634

At September 30, 2021 and December 31, 2020, securities with a carrying value totaling approximately \$161.4 million and \$80.2 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 11 – *Derivatives Financial Instruments* 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 of securities available-for-sale, gross gains and gross losses on sales and redemptions for the three and nine months ended September 30, 2021, and 2020 were as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Proceeds from sales	\$ 16,771	\$ 4,884	\$ 16,771	\$ 11,759
Gross gains	\$ 64	\$ 17	\$ 64	\$ 43
Gross losses	\$ (19)	\$ (26)	\$ (19)	\$ (37)
Proceeds from maturities and calls	\$ 32,275	\$ 30,350	\$ 43,551	\$ 45,800

The amortized cost and estimated fair value of securities at September 30, 2021, by contractual maturity for non-mortgage backed securities are shown below (*in thousands*). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2021	
	Amortized Cost	Fair Value
Due in one year or less	\$ 61,259	\$ 61,267
Due from one year to five years	3,817	3,843
Due from five years to ten years	90,688	91,409
Due after ten years	111,739	112,830
	267,503	269,349
Mortgage-backed securities	68,837	69,994
Total	\$ 336,340	\$ 339,343

[Table of Contents](#)

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

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

	September 30, 2021								
	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. Treasury	\$ 76,626	\$ (61)	4	\$ —	\$ —	—	\$ 76,626	\$ (61)	4
U.S. Government-sponsored enterprises (GSEs)	37,469	(910)	10	841	(3)	3	38,310	(913)	13
Municipal securities	3,929	(31)	3	—	—	—	3,929	(31)	3
Other debt securities	5,982	(72)	6	—	—	—	5,982	(72)	6
Mortgage-backed securities (GSEs)	8,891	(59)	8	8,780	(123)	6	17,671	(182)	14
Total	<u>\$ 132,897</u>	<u>\$ (1,133)</u>	<u>31</u>	<u>\$ 9,621</u>	<u>\$ (126)</u>	<u>9</u>	<u>\$ 142,518</u>	<u>\$ (1,259)</u>	<u>40</u>

	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
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>

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 September 30, 2021, represented a temporary impairment, as these unrealized losses are primarily attributable to changes in interest rates and current market conditions, and not credit deterioration of the issuers. As of September 30, 2021, the Company does not intend, or be required, to sell any of the securities, and expects to recover the entire amortized cost of all of the securities.

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

	September 30, 2021	December 31, 2020
Federal Reserve Bank stock	\$ 8,171	\$ 8,606
Federal Home Loan Bank stock	6,451	5,838
First National Bankers Bank stock	350	350
Total	<u>\$ 14,972</u>	<u>\$ 14,794</u>

Our restricted investments consist of non-marketable equity securities that have no readily determinable market value. Accordingly, when evaluating these securities for impairment, management considers the ultimate recoverability of the par value rather than recognizing temporary declines in value. As of September 30, 2021, the Company determined that there was no impairment on its other investments.

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

Note 5. Loans and Leases and Allowance for Loan and Lease LossesPortfolio Segmentation:

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

	September 30, 2021			December 31, 2020		
	PCI Loans and Leases ¹	All Other Loans and Leases	Total	PCI Loans and Leases ¹	All Other Loans and Leases	Total
Commercial real estate	\$ 23,156	\$ 1,290,091	\$ 1,313,247	\$ 16,123	\$ 996,853	\$ 1,012,976
Consumer real estate	10,863	467,298	478,161	10,258	433,672	443,930
Construction and land development	2,904	323,470	326,374	5,348	272,727	278,075
Commercial and industrial	2,871	466,868	469,739	308	634,138	634,446
Leases	3,748	49,648	53,396	—	—	—
Consumer and other	87	11,659	11,746	27	12,789	12,816
Total loans and leases	43,629	2,609,034	2,652,663	32,064	2,350,179	2,382,243
Less: Allowance for loan and lease losses	(427)	(18,868)	(19,295)	(309)	(18,037)	(18,346)
Loans and leases, net	<u>\$ 43,202</u>	<u>\$ 2,590,166</u>	<u>\$ 2,633,368</u>	<u>\$ 31,755</u>	<u>\$ 2,332,142</u>	<u>\$ 2,363,897</u>

¹ Purchased Credit Impaired loans and leases (“PCI loans and leases”) are loans and leases with evidence of credit deterioration at purchase.

For purposes of the disclosures required pursuant to ASC 310, the loan and lease 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 six loan and lease portfolio segments that include commercial real estate, consumer real estate, construction and land development, commercial and industrial, leases, and consumer and other.

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 and lease 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 and the fees are accounted for as loan origination fees and recognized over the contractual loan term as a yield adjustment on the loans. At September 30, 2021, the net deferred fees outstanding was \$3.8 million for the 2021 PPP loans and no net deferred fees were outstanding for the 2020 PPP loans. At December 31, 2020, the net deferred fees outstanding for the 2020 PPP loans was \$4.2 million. PPP loans are included in the Commercial and Industrial loan segments. As of September 30, 2021, the Company had 1,126 PPP loans outstanding, with an outstanding principal balance of \$87.1 million and as of December 31, 2020, the Company had 2,863 PPP loans outstanding, with an outstanding principal balance of \$288.9 million.

[Table of Contents](#)

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

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

	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
September 30, 2021:							
Performing loans and leases	\$ 1,289,233	\$ 464,881	\$ 323,470	\$ 466,769	\$ 49,648	\$ 11,659	\$ 2,605,660
Impaired loans and leases	858	2,417	—	99	—	—	3,374
	<u>1,290,091</u>	<u>467,298</u>	<u>323,470</u>	<u>466,868</u>	<u>49,648</u>	<u>11,659</u>	<u>2,609,034</u>
PCI loans and leases	23,156	10,863	2,904	2,871	3,748	87	43,629
Total loans and leases	<u>\$ 1,313,247</u>	<u>\$ 478,161</u>	<u>\$ 326,374</u>	<u>\$ 469,739</u>	<u>\$ 53,396</u>	<u>\$ 11,746</u>	<u>\$ 2,652,663</u>

December 31, 2020:							
Performing loans and leases	\$ 992,982	\$ 432,356	\$ 272,727	\$ 633,992	\$ —	\$ 12,789	\$ 2,344,846
Impaired loans and leases	3,871	1,316	—	146	—	—	5,333
	<u>996,853</u>	<u>433,672</u>	<u>272,727</u>	<u>634,138</u>	<u>—</u>	<u>12,789</u>	<u>2,350,179</u>
PCI loans and leases	16,123	10,258	5,348	308	—	27	32,064
Total loans and leases	<u>\$ 1,012,976</u>	<u>\$ 443,930</u>	<u>\$ 278,075</u>	<u>\$ 634,446</u>	<u>\$ —</u>	<u>\$ 12,816</u>	<u>\$ 2,382,243</u>

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

	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
September 30, 2021:							
Performing loans and leases	\$ 8,927	\$ 3,316	\$ 2,218	\$ 3,493	\$ 225	\$ 103	\$ 18,282
Impaired loans and leases	417	70	—	99	—	—	586
	<u>9,344</u>	<u>3,386</u>	<u>2,218</u>	<u>3,592</u>	<u>225</u>	<u>103</u>	<u>18,868</u>
PCI loans and leases	61	155	—	209	—	2	427
Total loans and leases	<u>\$ 9,405</u>	<u>\$ 3,541</u>	<u>\$ 2,218</u>	<u>\$ 3,801</u>	<u>\$ 225</u>	<u>\$ 105</u>	<u>\$ 19,295</u>

December 31, 2020:							
Performing loans and leases	\$ 7,579	\$ 3,267	\$ 2,076	\$ 4,768	\$ —	\$ 110	\$ 17,800
Impaired loans and leases	—	116	—	121	—	—	237
	<u>7,579</u>	<u>3,383</u>	<u>2,076</u>	<u>4,889</u>	<u>—</u>	<u>110</u>	<u>18,037</u>
PCI loans and leases	—	88	—	218	—	3	309
Total loans and leases	<u>\$ 7,579</u>	<u>\$ 3,471</u>	<u>\$ 2,076</u>	<u>\$ 5,107</u>	<u>\$ —</u>	<u>\$ 113</u>	<u>\$ 18,346</u>

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

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

Three Months Ended September 30, 2021							
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
Beginning balance	\$ 8,382	\$ 3,323	\$ 2,061	\$ 4,442	\$ —	\$ 102	\$ 18,310
Charged-off loans and leases	—	—	—	(41)	(68)	(132)	(241)
Recoveries of charge-offs	23	13	—	3	5	33	77
Provision charged to expense	1,000	205	157	(603)	288	102	1,149
Ending balance	\$ 9,405	\$ 3,541	\$ 2,218	\$ 3,801	\$ 225	\$ 105	\$ 19,295

Three Months Ended September 30, 2020							
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
Beginning balance	\$ 6,595	\$ 3,313	\$ 1,795	\$ 4,443	\$ —	\$ 108	\$ 16,254
Charged-off loans and leases	—	(21)	—	(60)	—	(89)	(170)
Recoveries of charge-offs	11	17	—	55	—	16	99
Provision charged to expense	1,123	135	265	1,025	—	86	2,634
Ending balance	\$ 7,729	\$ 3,444	\$ 2,060	\$ 5,463	\$ —	\$ 121	\$ 18,817

Nine Months Ended September 30, 2021							
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
Beginning balance	\$ 7,579	\$ 3,471	\$ 2,076	\$ 5,107	\$ —	\$ 113	\$ 18,346
Charged-off loans and leases	—	(60)	—	(45)	(68)	(341)	(514)
Recoveries of charge-offs	29	34	—	13	5	171	252
Provision charged to expense	1,797	96	142	(1,274)	288	162	1,211
Ending balance	\$ 9,405	\$ 3,541	\$ 2,218	\$ 3,801	\$ 225	\$ 105	\$ 19,295

Nine Months Ended September 30, 2020							
	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
Beginning balance	\$ 4,508	\$ 2,576	\$ 1,127	\$ 1,957	\$ —	\$ 75	\$ 10,243
Charged-off loans and leases	—	(23)	—	(77)	—	(231)	(331)
Recoveries of charge-offs	16	34	2	103	—	67	222
Provision charged to expense	3,205	857	931	3,480	—	210	8,683
Ending balance	\$ 7,729	\$ 3,444	\$ 2,060	\$ 5,463	\$ —	\$ 121	\$ 18,817

We maintain the allowance at a level that we deem appropriate to adequately cover the probable losses inherent in the loan and lease portfolio. Our provision for loan and lease losses for the three and nine months ended September 30, 2021, is \$1.1 million and \$1.2 million, respectively, and \$2.6 million \$8.7 million, during the three and nine months ended September 30, 2020, respectively. As of September 30, 2021, and December 31, 2020, our allowance for loan and lease losses was \$19.3 million and \$18.3 million, respectively, which we deemed to be adequate at each of the respective dates. Our allowance for loan and lease losses as a percentage of total loans and leases was 0.73% at September 30, 2021 and 0.77% at December 31, 2020.

[Table of Contents](#)

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

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

September 30, 2021							
Non PCI Loans and Leases:	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
Pass	\$ 1,245,064	\$ 461,422	\$ 323,156	\$ 460,588	\$ 49,648	\$ 11,591	\$ 2,551,469
Watch	40,106	1,490	240	5,767	—	45	47,648
Special mention	3,841	1,527	—	244	—	—	5,612
Substandard	1,080	2,859	74	224	—	23	4,260
Doubtful	—	—	—	45	—	—	45
Total	<u>1,290,091</u>	<u>467,298</u>	<u>323,470</u>	<u>466,868</u>	<u>49,648</u>	<u>11,659</u>	<u>2,609,034</u>
PCI Loans and Leases:							
Pass	11,769	8,473	2,344	2,824	3,748	69	29,227
Watch	7,719	754	91	1	—	18	8,583
Special mention	579	70	—	—	—	—	649
Substandard	3,089	1,566	469	46	—	—	5,170
Doubtful	—	—	—	—	—	—	—
Total	<u>23,156</u>	<u>10,863</u>	<u>2,904</u>	<u>2,871</u>	<u>3,748</u>	<u>87</u>	<u>43,629</u>
Total loans and leases	<u>\$ 1,313,247</u>	<u>\$ 478,161</u>	<u>\$ 326,374</u>	<u>\$ 469,739</u>	<u>\$ 53,396</u>	<u>\$ 11,746</u>	<u>\$ 2,652,663</u>

December 31, 2020							
Non PCI Loans and Leases:	Commercial Real Estate	Consumer Real Estate	Construction and Land Development	Commercial and Industrial	Leases	Consumer and Other	Total
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	<u>996,853</u>	<u>433,672</u>	<u>272,727</u>	<u>634,138</u>	<u>—</u>	<u>12,789</u>	<u>2,350,179</u>
PCI Loans and Leases:							
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	<u>16,123</u>	<u>10,258</u>	<u>5,348</u>	<u>308</u>	<u>—</u>	<u>27</u>	<u>32,064</u>
Total loans and leases	<u>\$ 1,012,976</u>	<u>\$ 443,930</u>	<u>\$ 278,075</u>	<u>\$ 634,446</u>	<u>\$ —</u>	<u>\$ 12,816</u>	<u>\$ 2,382,243</u>

Past Due Loans and Leases:

A loan or lease 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 or lease agreement. Generally, management places a loan or lease on nonaccrual when there is a clear indicator that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan or lease is 90 days past due.

[Table of Contents](#)

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

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

	September 30, 2021							
	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	Current	Total
Commercial real estate	\$ 1,599	\$ —	\$ —	\$ 858	\$ 2,457	\$ 23,156	\$ 1,287,634	\$ 1,313,247
Consumer real estate	170	—	—	2,564	2,734	10,863	464,564	478,161
Construction and land development	45	—	—	—	45	2,904	323,425	326,374
Commercial and industrial	342	214	—	125	681	2,871	466,187	469,739
Leases	377	42	—	—	419	3,748	49,229	53,396
Consumer and other	193	—	—	20	213	87	11,446	11,746
Total	\$ 2,726	\$ 256	\$ —	\$ 3,567	\$ 6,549	\$ 43,629	\$ 2,602,485	\$ 2,652,663

	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	Current	Total
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
Leases	—	—	—	—	—	—	—	—
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

Impaired Loans and Leases:

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

	September 30, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans and leases without a valuation allowance:						
Commercial real estate	\$ —	\$ —	\$ —	\$ 3,871	\$ 3,872	\$ —
Consumer real estate	2,156	2,157	—	888	888	—
Construction and land development	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Leases	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—
	<u>2,156</u>	<u>2,157</u>	<u>—</u>	<u>4,759</u>	<u>4,760</u>	<u>—</u>
Impaired loans and leases with a valuation allowance:						
Commercial real estate	858	858	417	—	—	—
Consumer real estate	261	263	70	428	428	116
Construction and land development	—	—	—	—	—	—
Commercial and industrial	99	99	99	146	146	121
Leases	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—
	<u>1,218</u>	<u>1,220</u>	<u>586</u>	<u>574</u>	<u>574</u>	<u>237</u>
PCI loans and leases:						
Commercial real estate	1,206	1,500	61	—	—	—
Consumer real estate	1,196	1,318	155	1,827	2,086	88
Construction and land development	—	—	—	—	—	—
Commercial and industrial	255	228	209	270	234	218
Leases	—	—	—	—	—	—
Consumer and other	6	5	2	21	20	3
	<u>2,663</u>	<u>3,051</u>	<u>427</u>	<u>2,118</u>	<u>2,340</u>	<u>309</u>
Total impaired loans and leases	\$ 6,037	\$ 6,428	\$ 1,013	\$ 7,451	\$ 7,674	\$ 546

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

	Three Months Ended September 30,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans and leases without a valuation allowance:				
Commercial real estate	\$ —	\$ —	\$ 552	\$ 3
Consumer real estate	2,171	19	758	3
Construction and land development	—	—	—	—
Commercial and industrial Leases	—	—	—	—
Consumer and other	—	—	—	—
	<u>2,171</u>	<u>19</u>	<u>1,310</u>	<u>6</u>
Impaired loans and leases with a valuation allowance:				
Commercial real estate	858	—	198	—
Consumer real estate	261	3	440	4
Construction and land development	—	—	—	—
Commercial and industrial Leases	154	2	379	2
Consumer and other	—	—	—	—
	<u>1,273</u>	<u>5</u>	<u>1,017</u>	<u>6</u>
PCI loans and leases:				
Commercial real estate	1,230	27	8	—
Consumer real estate	1,176	21	1,869	38
Construction and land development	—	—	—	—
Commercial and industrial Leases	258	1	305	2
Consumer and other	10	—	27	—
	<u>2,674</u>	<u>49</u>	<u>2,209</u>	<u>40</u>
Total impaired loans and leases	<u>\$ 6,118</u>	<u>\$ 73</u>	<u>\$ 4,536</u>	<u>\$ 52</u>

	Nine Months Ended September 30,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans and leases without a valuation allowance:				
Commercial real estate	\$ 1,000	\$ 1	\$ 374	\$ 7
Consumer real estate	1,778	39	653	17
Construction and land development	—	—	289	—
Commercial and industrial Leases	—	—	—	—
Consumer and other	—	—	—	—
	<u>2,778</u>	<u>40</u>	<u>1,316</u>	<u>24</u>
Impaired loans and leases with a valuation allowance:				
Commercial real estate	1,218	104	198	2
Consumer real estate	352	11	712	18
Construction and land development	—	—	—	—
Commercial and industrial Leases	141	7	269	7
Consumer and other	—	—	—	—
	<u>1,711</u>	<u>122</u>	<u>1,179</u>	<u>27</u>
PCI loans and leases:				
Commercial real estate	410	27	250	1
Consumer real estate	1,169	64	1,344	77
Construction and land development	—	—	58	—
Commercial and industrial Leases	263	3	343	5
Consumer and other	15	—	29	—
	<u>1,857</u>	<u>94</u>	<u>2,024</u>	<u>83</u>
Total impaired loans and leases	<u>\$ 6,346</u>	<u>\$ 256</u>	<u>\$ 4,519</u>	<u>\$ 134</u>

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

Troubled Debt Restructurings:

For the periods presented, 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 September 30, 2021 and December 31, 2020, management had approximately \$212 thousand and \$257 thousand, respectively, in loans that met the criteria for TDR, none of which were on nonaccrual. A loan is placed back on accrual status when both principal and interest are current, and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

There were no loans that were modified as a TDR during the nine months ended September 30, 2021, and one loan that was modified during the nine months ended September 30, 2020. There were no loans that were modified as TDRs during the past nine 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. 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 September 30, 2021, the Company had no loans remaining under COVID-19 modifications.

Foreclosure Proceedings and Balances:

As of September 30, 2021, there were no residential properties secured by real estate included in other real estate owned and there was one residential real estate loan totaling \$33 thousand in the process of foreclosure.

[Table of Contents](#)

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

Purchased Credit Impaired Loans and Leases:

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

	September 30, 2021	December 31, 2020
Commercial real estate	\$ 31,664	\$ 23,787
Consumer real estate	13,211	12,692
Construction and land development	3,686	1,812
Commercial and industrial	3,794	6,521
Leases	4,133	—
Consumer and other	154	161
Total loans and leases	<u>56,642</u>	<u>44,973</u>
Less: Remaining purchase discount	(13,013)	(12,909)
Total loans and leases, net of purchase discount	<u>43,629</u>	<u>32,064</u>
Less: Allowance for loan and leases losses	(427)	(309)
Carrying amount, net of allowance	<u>\$ 43,202</u>	<u>\$ 31,755</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Accretible yield, beginning of period	\$ 14,522	\$ 11,777	\$ 16,889	\$ 8,454
Additions	4,072	—	4,721	2,515
Accretion income	(2,151)	(1,267)	(5,180)	(4,401)
Reclassification	254	265	1,931	2,428
Other changes, net	(1,034)	7,405	(2,698)	9,184
Accretible yield, end of period	<u>\$ 15,663</u>	<u>\$ 18,180</u>	<u>\$ 15,663</u>	<u>\$ 18,180</u>

Note 6. Goodwill and Intangible Assets

In accordance with FASB ASC 350, *Goodwill and Other*, regarding testing goodwill for impairment provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company performs its annual goodwill impairment test as of December 31 of each year. 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 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.

On September 30, 2021, the Company entered into a Purchase and Assumption Agreement and completed the sale of a portfolio of loans and certain assets associated (the “Sale”) with its branch office located in Richmond, Virginia to Strasburg, Virginia-based First Bank. In accordance with GAAP, the Company allocated a proportionate share of its goodwill balance to the Sale on a relative fair value basis. Based on a relative fair value analysis performed through the date of the sale, goodwill adjustment in the amount of \$2.5 million related to the Sale was recorded during the third quarter of 2021.

[Table of Contents](#)

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

The Company's other intangible assets consist of core deposit, customer relationships and 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 customer relationships are amortized over a weighted average of 8.6 years and the tradename is amortized over five years.

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

	September 30, 2021	December 31, 2020
Goodwill:		
Balance, beginning of period	\$ 74,135	\$ 65,614
Acquisition of PFG	323	8,521
Acquisition of Fountain	2,400	—
Acquisition of SCB	15,589	—
Adjustment, due to Sale	(2,463)	—
Balance, end of the period	<u>\$ 89,984</u>	<u>\$ 74,135</u>

	Core Deposit Intangibles	Customer Relationships Intangibles	Tradename Intangibles	Total
Amortized other intangible assets:				
Beginning balance January 1, 2021, gross	\$ 15,920	\$ 1,064	\$ 63	\$ 17,047
Acquisition of Fountain	-	2,658	-	2,658
Acquisition of SCB	1,550	-	-	1,550
Balance, September 30, 2021, other intangible assets, gross	17,470	3,722	63	21,255
Less: accumulated amortization	(5,748)	(541)	(20)	(6,309)
Balance, September 30, 2021, other intangible assets, net	<u>\$ 11,722</u>	<u>\$ 3,181</u>	<u>\$ 43</u>	<u>\$ 14,946</u>
Beginning balance January 1, 2020, gross	\$ 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>

The aggregate amortization expense for other intangible assets for the three and nine months ended September 30, 2021, was \$711 thousand and \$1.6 million, respectively, and for the three and nine months ended September 30, 2020, was \$402 thousand and \$1.2 million, respectively.

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

Remainder of 2021	\$ 660
2022	2,521
2023	2,356
2024	2,203
2025	2,041
Thereafter	5,165
Total	<u>\$ 14,946</u>

[Table of Contents](#)

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

Note 7. Borrowings, Line of Credit and Subordinated Debt

Borrowings:

At September 30, 2021, total borrowings were \$88.7 million compared to \$81.2 million at December 31, 2020. Borrowings consist of the following (*dollars in thousands*):

	September 30, 2021	December 31, 2020
Securities sold under customer repurchase agreements	\$ 6,248	\$ 5,803
FHLB borrowings	75,000	75,000
Other borrowings	7,500	396
Total	<u>\$ 88,748</u>	<u>\$ 81,199</u>

Securities Sold Under Agreements to Repurchase:

The Company had securities sold under agreements to repurchase with commercial checking customers which were secured by government agency securities. The carrying value of investment securities pledged as collateral under repurchase agreements was \$5.6 million and \$7.6 million at September 30, 2021 and December 31, 2020, respectively.

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 March 24, 2023. At September 30, 2021, \$7.5 million was outstanding under the line of credit, and \$17.5 million of the line of credit remained available to the Company.

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 September 30, 2021 and December 31, 2020. Unamortized debt issuance cost was \$591 thousand and \$654 thousand at September 30, 2021 and December 31, 2020, 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 \$21 thousand and \$63 thousand for the three and nine months ended September 30, 2021 and September 30, 2020, respectively

On September 1, 2021, the Company acquired \$2.5 million of subordinated notes ("sub-debt") from the acquisition of SCB. The sub-debt bears interest at a rate of 6.75% per annum until August 14, 2024, with the interest during this period payable semi-annually in arrears. From and including August 14, 2024, 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 sub-debt if three-month LIBOR cannot be determined, plus 530.25 basis points, with interest during this period payable quarterly in arrears. The sub-debt is redeemable by the Company, in whole or in part, on or after August 14, 2024, and at any time, in whole but not in part, upon the occurrence

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

of certain events. The sub-debt has been structured to qualify initially as Tier 2 capital for the Company for regulatory capital purposes.

Note 8. Employee Benefit Plans

401(k) Plan:

The Company provides a deferred salary reduction plan ("Plan") under Section 401(k) of the Internal Revenue Code covering substantially all employees. After 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 for the three and nine months ending September 30, 2021, was \$287 thousand and \$925 thousand, respectively. The Company's contribution to the Plan for the three and nine months ending September 30, 2020, was \$282 thousand and \$840 thousand, respectively.

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 September 30, 2021, the Company had one active equity incentive plan available for future grants, the 2015 Stock Incentive Plan, which has 1,830,260 Rights available for future grants or awards.

In addition, the Company has 19,250 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.

Stock Options:

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

	Number	Weighted Average Exercisable Price
Outstanding at December 31, 2020	99,617	\$ 10.19
Granted	—	—
Exercised	(19,040)	10.18
Forfeited	—	—
Outstanding at September 30, 2021	<u>80,577</u>	<u>\$ 10.19</u>

The Company did not recognize any stock option-based compensation expense during the three and nine months ended September 30, 2021 and 2020, respectively, as all stock options issued are fully vested.

[Table of Contents](#)

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

Information pertaining to stock options outstanding at September 30, 2021, 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	0.45 years	\$ 6.60	19,250	\$ 6.60	
9.48	18,000	1.45 years	9.48	18,000	9.48	
9.60	22,250	2.25 years	9.60	22,250	9.60	
11.76	2,266	0.75 years	11.76	2,266	11.76	
15.05	18,811	3.75 years	15.05	18,811	15.05	
Outstanding, end of period	<u>80,577</u>	<u>1.95 years</u>	<u>\$ 10.19</u>	<u>80,577</u>	<u>\$ 10.19</u>	

No stock options were exercised during the three months ended September 30, 2021. The intrinsic value of options exercised during nine months ended September 30, 2021, was \$220 thousand, and \$75 thousand and \$141 thousand, during the three and nine months ended September 30, 2020, respectively. The aggregate intrinsic value of total options outstanding and exercisable options at September 30, 2021, was \$1.3 million. Cash received from options exercised under all share-based payment arrangements for the nine months ended September 30, 2021 was \$194 thousand.

No options vested during the nine months ended September 30, 2021 and 2020, respectively. No stock options were exercised during the three months ended September 30, 2021. The income tax expense/benefit recognized for the exercise of options during the nine months ended September 30, 2021, was a benefit of \$9 thousand and for the three and nine months ended September 30, 2020, was an expense of \$3 thousand and a benefit of \$19 thousand, respectively.

As of September 30, 2021, 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 period ended September 30, 2021 is presented below:

	Number	Weighted Average Grant-Date Fair Value
Balance at December 31, 2020	100,218	\$ 19.07
Granted	53,134	20.43
Vested	(7,185)	21.42
Forfeited/expired	(1,800)	16.37
Balance at September 30, 2021	<u>144,367</u>	<u>\$ 19.49</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 three and nine months ended September 30, 2021, was \$163 thousand and \$525 thousand, respectively, and was \$142 thousand and \$365 thousand, during the three and nine months ended September 30, 2020, respectively. As of September 30, 2021, there was \$1.6 million of unrecognized compensation cost related to non-vested restricted stock awards granted under the plan. The cost is expected to be recognized over a weighted average period of 2.74 years. The grant-date fair value of restricted stock awards vested was \$154 thousand for the nine months ended September 30, 2021.

[Table of Contents](#)

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

Stock Appreciation Rights ("SARs"):

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

	Number	Weighted Average Exercisable Price
Outstanding at December 31, 2020	73,000	\$ 19.02
Granted	22,000	20.70
Exercised	(23,500)	21.61
Forfeited	(6,000)	18.00
Outstanding at September 30, 2021	65,500	\$ 18.75

Information pertaining to SARs outstanding at September 30, 2021, is as follows:

	SARs Outstanding			SARs Exercisable		
	Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$	15.19	16,000	2.25 years	\$ 15.19	—	\$ —
	18.12	19,000	1.25 years	18.12	—	—
	20.70	20,000	3.25 years	20.70	—	—
	21.61	10,500	0.25 years	21.61	10,500	21.61
Outstanding, end of period		65,500	1.95 years	\$ 18.75	10,500	\$ 21.61

SARs compensation expense of \$49 thousand and \$162 thousand was recognized for the three and nine months ended September 30, 2021, respectively, and (\$63) thousand and (\$89) thousand for the three and nine months ended September 30, 2020. The credit in expense for the three and nine months ended September 30, 2020, was due to adjustments related to the fair value evaluation of SARs.

Note 9. Commitments and Contingent Liabilities

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

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

	September 30, 2021	December 31, 2020
Commitments to extend credit	\$ 616,271	\$ 476,841
Standby letters of credit	10,439	5,261

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

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

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 September 30, 2021 and December 31, 2020, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant.

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

Note 10. Fair Value Disclosures

Determination of Fair Value:

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

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

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.

[Table of Contents](#)

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

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

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

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

Recurring Measurements of Fair Value:

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis (*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)
September 30, 2021:				
Assets:				
Securities available-for-sale:				
U.S. Treasury	94,025	—	94,025	—
U.S. Government-sponsored enterprises (GSEs)	\$ 53,463	\$ —	\$ 53,463	\$ —
Municipal securities	95,570	—	95,570	—
Other debt securities	26,291	—	26,291	—
Mortgage-backed securities (GSEs)	69,994	—	69,994	—
Total securities available-for-sale	<u>\$ 339,343</u>	<u>\$ —</u>	<u>\$ 339,343</u>	<u>\$ —</u>
Liabilities:				
Derivative financial instruments	<u>\$ 4,180</u>	<u>\$ —</u>	<u>\$ 4,180</u>	<u>\$ —</u>
December 31, 2020:				
Assets:				
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>
Liabilities:				
Derivative financial instruments	<u>\$ 6,174</u>	<u>—</u>	<u>\$ 6,174</u>	<u>—</u>

During the nine months ending September 30, 2021, there were no transfers between Level 1 and Level 2 in the fair value hierarchy.

Securities available-for-sale - The fair value of U.S. Treasury, U.S. Government-sponsored enterprises, municipal securities, other debt securities and mortgage-backed securities, is estimated using a third party pricing service. The third party provider evaluates securities based on comparable investments with trades and market data and will utilize pricing models that use a variety of inputs, such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids and offers as needed. These securities are generally classified as Level 2.

[Table of Contents](#)

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

Derivative financial instruments - The fair value for derivative financial instruments is determined based on market prices, broker-dealer quotations on similar products, or other related input parameters. The derivative financial instruments are generally classified Level 2.

Assets Measured at Fair Value on a Nonrecurring Basis:

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
September 30, 2021:				
Collateral dependent loans	\$ 2,868	\$ —	\$ —	\$ 2,868
Other real estate owned	2,415	—	—	2,415
December 31, 2020:				
Collateral dependent loans	\$ 2,455	\$ —	\$ —	\$ 2,455
Other real estate owned	4,619	—	—	4,619

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
September 30, 2021:				
Collateral dependent loans	\$ 2,868	Appraisal	Appraisal discounts	26 %
Other real estate owned	2,415	Appraisal	Appraisal discounts	10 %
December 31, 2020:				
Collateral dependent loans	\$ 2,455	Appraisal	Appraisal discounts	9 %
Other real estate owned	4,619	Appraisal	Appraisal discounts	22 %

Collateral dependent loans: A collateral dependent loan is measured based on the fair value of the collateral securing these loans, less selling costs. Collateral dependent 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. Collateral dependent loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

[Table of Contents](#)

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

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

Carrying value and estimated fair value:

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

	Fair Value Measurements Using				Estimated Fair Value
	Carrying Amount	Level 1	Level 2	Level 3	
September 30, 2021:					
Assets:					
Cash and cash equivalents	\$ 1,091,160	\$ 1,091,160	\$ —	\$ —	\$ 1,091,160
Securities available-for-sale	339,343	—	339,343	—	339,343
Other investments	14,972	N/A	N/A	N/A	N/A
Loans and leases, net and loans held for sale	2,636,786	—	—	2,630,239	2,630,239
Liabilities:					
Noninterest-bearing demand deposits	977,180	—	977,180	—	977,180
Interest-bearing demand deposits	847,007	—	847,007	—	847,007
Money market and savings deposits	1,389,393	—	1,389,393	—	1,389,393
Time deposits	585,692	—	587,954	—	587,954
Borrowings	88,748	—	89,669	—	89,669
Subordinated debt	41,909	—	—	43,645	43,645
Derivative financial instruments	4,180	—	4,180	—	4,180
December 31, 2020:					
Assets:					
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 and leases, net and loans held for sale	2,375,618	—	—	2,377,581	2,377,581
Liabilities:					
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

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.

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

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

Note 11. Derivatives Financial Instruments

Derivatives designated as fair value hedges:

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

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

Liability derivatives	Balance Sheet Location	Weighted Average Remaining Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value
September 30, 2021:						
Interest rate swap agreements - securities	Other liabilities	5.74	3.09 %	3 month LIBOR	\$ 36,000	\$ (4,180)
December 31, 2020:						
Interest rate swap agreements - securities	Other liabilities	7.13	3.08 %	3 month LIBOR	\$ 36,000	\$ (6,174)

[Table of Contents](#)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest income on tax-exempt securities	\$ 549	\$ 565	\$ 1,675	\$ 1,586
Effects of fair value hedge relationships	(218)	(201)	(781)	(522)
Reported interest income on tax-exempt securities	<u>\$ 331</u>	<u>\$ 364</u>	<u>\$ 894</u>	<u>\$ 1,064</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Gain (loss) on fair value hedging relationship				
Interest rate swap agreements - securities:				
Hedged items	\$ 288	\$ 299	\$ 1,994	\$ (3,345)
Derivative designated as hedging instruments	\$ (288)	\$ (299)	\$ (1,994)	\$ 3,345

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

Line item on the balance sheet	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in Other Comprehensive Income
September 30, 2021:		
Securities available-for-sale	\$ 43,258	\$ 448
December 31, 2020:		
Securities available-for-sale	\$ 44,017	\$ (1,063)

Non-hedged derivatives:

During the second quarter of 2021, the Company initiated a loan hedging program to certain loan customers. Through this program, the Company originates a variable rate loan with the customer. The Company and the customer will then enter into a fixed interest rate swap. Lastly, an identical offsetting swap is entered into by the Company with a dealer bank. These "back-to-back" swap arrangements are intended to offset each other and allow the Company to book a variable rate loan, while providing the customer with a contract for fixed interest payments. In these arrangements, the Company's net cash flow is equal to the interest income received from the variable rate loan originated with the customer. These customer swaps are not designated as hedging instruments and are recorded at fair value in other assets and other liabilities. Since the income statement impact of the offsetting positions is limited, any changes in fair value is recognized as other noninterest income in the current period.

At September 30, 2021 and December 31, 2020, interest rate swaps related to the Company's loan hedging program that were outstanding are presented in the following table (*in thousands*):

	September 30, 2021		December 31, 2020	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swap agreements:				
Assets	\$ 14,718	\$ 250	\$ -	\$ -
Liabilities	14,718	(250)	-	-
Total	<u>\$ 29,436</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

[Table of Contents](#)SMARTFINANCIAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company establishes limits and monitors exposures for customer swap positions. Any fees received to enter the swap agreements at inception are recognized in earnings when received and is included in noninterest income. Such fees were as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest rate swap agreements	\$ 479	\$ —	\$ 489	\$ —

Note 12. Leases

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

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

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

	Classification	September 30, 2021	December 31, 2020
Assets:			
Operating lease right-of-use assets	Other assets	\$ 6,104	\$ 4,797
Liabilities:			
Operating lease liabilities	Other liabilities	\$ 6,154	\$ 4,827

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 September 30, 2021, the weighted average remaining lease term was 10.80 years and the weighted average discount rate was 2.39%.

The following table represents lease costs and other lease information. As the Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance (*in thousands*).

[Table of Contents](#)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Lease costs:				
Operating lease costs	\$ 270	\$ 272	\$ 764	\$ 779
Variable lease costs	18	29	66	84
Total	<u>\$ 288</u>	<u>\$ 301</u>	<u>\$ 830</u>	<u>\$ 863</u>
Other information:				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	<u>\$ 257</u>	<u>\$ 264</u>	<u>\$ 740</u>	<u>\$ 759</u>

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2021, were as follows (*in thousands*):

	<u>Amounts</u>
September 30, 2022	\$ 253
September 30, 2023	985
September 30, 2024	744
September 30, 2025	528
September 30, 2026	515
Thereafter	4,059
Total future minimum lease payments	<u>7,084</u>
Amounts representing interest	(930)
Present value of net future minimum lease payments	<u>\$ 6,154</u>

Note 13. 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 September 30, 2021, 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 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

[Table of Contents](#)

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

limitations on the Company's ability to pay dividends. Federal Reserve regulations limit dividends, stock repurchases and discretionary bonuses to executive officers if the Company's regulatory capital is below the level of regulatory minimums plus the applicable capital conservation buffer.

During the three months ended September 30, 2021, the Bank did not pay a dividend to the Company and the Company paid a quarterly common stock dividend of \$0.06 per share. During the nine months ended September 30, 2021, the Bank paid \$10.0 million in dividends to the Company. Since the first quarter of 2021, the Company has paid a quarterly common stock dividend of \$0.06 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 September 30, 2021, and December 31, 2020 are presented below (*dollars in thousands*):

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provisions ¹	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2021						
SmartFinancial:						
Total Capital (to Risk Weighted Assets)	\$ 381,766	12.92 %	\$ 236,367	8.00 %	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	320,562	10.85 %	177,275	6.00 %	N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	320,562	10.85 %	132,956	4.50 %	N/A	N/A
Tier 1 Capital (to Average Assets) ²	320,562	8.36 %	153,417	4.00 %	N/A	N/A
SmartBank:						
Total Capital (to Risk Weighted Assets)	\$ 371,740	12.59 %	\$ 236,244	8.00 %	\$ 295,304	10.00 %
Tier 1 Capital (to Risk Weighted Assets)	352,445	11.94 %	177,183	6.00 %	236,244	8.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)	352,445	11.94 %	132,887	4.50 %	191,948	6.50 %
Tier 1 Capital (to Average Assets) ²	352,445	9.20 %	153,185	4.00 %	191,481	5.00 %
December 31, 2020						
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)	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)	299,314	9.58 %	124,969	4.00 %	156,212	5.00 %

¹The prompt corrective action provisions are applicable at the Bank level only.

²Average assets for the above calculations were based on the most recent quarter.

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

Note 14. Other Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2021		
	Securities Available-for- Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance, June 30, 2021	\$ 2,051	\$ 287	\$ 2,338
Other comprehensive income	210	44	254
Reclassification of amounts included in net income	(33)	—	(33)
Net other comprehensive income during period	177	44	221
Ending balance, September 30, 2021	<u>\$ 2,228</u>	<u>\$ 331</u>	<u>\$ 2,559</u>
	Three Months Ended September 30, 2020		
	Securities Available-for- Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance, June 30, 2020	\$ 2,668	\$ (2,076)	\$ 592
Other comprehensive income	(65)	492	427
Reclassification of amounts included in net income	(7)	—	(7)
Net other comprehensive income during period	(72)	492	420
Ending balance, September 30, 2020	<u>\$ 2,596</u>	<u>\$ (1,584)</u>	<u>\$ 1,012</u>
	Nine Months Ended September 30, 2021		
	Securities Available-for- Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance, December 31, 2020	\$ 2,968	\$ (785)	\$ 2,183
Other comprehensive income (loss)	(707)	1,116	409
Reclassification of amounts included in net income	(33)	—	(33)
Net other comprehensive income (loss) during period	(740)	1,116	376
Ending balance, September 30, 2021	<u>\$ 2,228</u>	<u>\$ 331</u>	<u>\$ 2,559</u>
	Nine Months Ended September 30, 2020		
	Securities Available-for- Sale	Fair Value Municipal Security Hedges	Accumulated Other Comprehensive Income (Loss)
Beginning balance, December 31, 2019	\$ 391	\$ (223)	\$ 168
Other comprehensive income (loss)	2,201	(1,361)	840
Reclassification of amounts included in net income	4	—	4
Net other comprehensive income (loss) during period	2,205	(1,361)	844
Ending balance, September 30, 2020	<u>\$ 2,596</u>	<u>\$ (1,584)</u>	<u>\$ 1,012</u>

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

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

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

Forward-Looking Statement

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 2), that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, 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 the COVID-19 (and the variants thereof) pandemic on the Company's business and financial results and conditions, are based on assumptions and estimates and are not guarantees of future performance. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words (and their derivatives), such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast," and the like, the negatives of such expressions, or the use of the future tense. Statements concerning current conditions may also be forward-looking if they imply a continuation of a current condition. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, financial condition, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to:

- weakness or a decline in the U.S. economy, in particular in Tennessee, and other markets in which we operate;
- the possibility that our asset quality would decline or that we experience greater loan and lease 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, including the risk of inflation and interest rate increases resulting from monetary and fiscal stimulus responses, and the resulting effect of all of such items on our operations, liquidity and capital position, and on the financial condition of our borrowers and other customers;
- 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;

[Table of Contents](#)

- expected revenue synergies and cost savings from the acquisition of Sevier County Bancshares, Inc. (“SCB”) and our acquisition of Fountain Equipment Finance, LLC (“Fountain”) may not be fully realized or may take longer than anticipated to be realized;
- disruption from the acquisitions of SCB and Fountain with customers, suppliers or employees or other business partners’ relationships;
- the risk of successful integration of SCB’s and Fountain’s businesses with our business;
- lower than expected revenue following the acquisitions of SCB and Fountain;
- The Company’s ability to manage the combined company’s growth following the acquisitions of SCB and Fountain;
- the dilution caused by the Company’s issuance of additional shares of its common stock in connection with the SCB acquisition;
- 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 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, impairments to goodwill, regulatory restrictions or limitations, and changes in the composition of qualifying regulatory capital and minimum capital requirements;
- the relatively greater credit risk of commercial real estate loans and construction and land development loans in our loan and lease portfolio;
- unanticipated credit deterioration in our loan and lease portfolio or higher than expected loan and lease losses within one or more segments of our loan and lease portfolio;
- unexpected significant declines in the loan and lease portfolio due to the lack of economic expansion, increased competition, large prepayments, changes in regulatory lending guidance or other factors;
- unanticipated loan and lease 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 and lease 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;
- risks associated with widespread inflation or deflation.

These and other factors that could cause results to differ materially from those described in the forward-looking statements can be found in SmartFinancial’s most recent annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, in each case filed with or furnished to the Securities and Exchange Commission (the “SEC”) and available on the SEC’s website (www.sec.gov). Undue reliance should not be placed on forward-looking statements. The Company disclaims any obligation to update or revise any forward-looking statements contained in this release, which speak only as of the date hereof, whether as a result of new information, future events, or otherwise.

[Table of Contents](#)

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

Executive Summary

The following is a summary of the Company's financial highlights and significant events during the third quarter and first nine months of 2021:

- Successfully completed the hiring of experienced banking teams in the Gulf Coast Region and Auburn, Dothan, Montgomery and Birmingham Alabama and Tallahassee, Florida.
- Announced and completed the acquisition of SCB.
- Announced and completed the acquisition of Fountain.
- Originated 1,801 Paycheck Protection Program ("PPP") loans totaling \$138.4 million.
- Net income totaled \$9.6 million, or \$0.61 per diluted common share, during the third quarter of 2021 compared to \$6.4 million, or \$0.42 per diluted common share, for the same period in 2020.
- Net income totaled \$28.1 million, or \$1.84 per diluted common share, during the first nine months of 2021 compared to \$15.3 million, or \$1.02 per diluted common share, for the same period in 2020.
- Annualized return on average assets for the three months ended September 30, 2021 and 2020 was 0.97% and 0.76%, respectively.
- Annualized return on average assets for the nine months ended September 30, 2021 and 2020 was 1.04% and 0.68%, respectively.

Analysis of Results of Operations

Third quarter of 2021 compared to 2020

Net income was \$9.6 million, or \$0.61 per diluted common share, for the third quarter of 2021, compared to \$6.4 million, or \$0.42 per diluted common share, for the third quarter of 2020. The increase in net income for this period was primarily from the increase of \$5.8 million in net interest income after provision for loan and lease losses and \$2.2 million in noninterest income, offset by increases of \$4.1 million in noninterest expense and \$665 thousand in income tax expense. The tax equivalent net interest margin was 3.35% for the third quarter of 2021, compared to 3.39% for the third quarter of 2020. Noninterest income to average assets was 0.64% for the third quarter of 2021, increasing from 0.49% for the third quarter of 2020. Noninterest expense to average assets increased to 2.35% in the third quarter of 2021, from 2.28% in the third quarter of 2020.

First nine months of 2021 compared to 2020

Net income was \$28.1 million, or \$1.84 per diluted common share, for the first nine months of 2021, compared to \$15.3 million, or \$1.02 per diluted common share, for the first nine months of 2020. The increase in net income for this period was primarily from the increase of \$16.7 million in net interest income after provision for loan and lease losses and \$6.7 million in noninterest income, offset by increases of \$6.8 million in noninterest expense and \$3.7 million in income tax expense. The tax equivalent net interest margin was 3.37% for the first nine months of 2021 compared to 3.62% for the first nine months of 2020. Noninterest income to average assets was 0.63% for the first nine months of 2021, increasing from 0.46% for the first nine months of 2020. Noninterest expense to average assets decreased to 2.34% in the first nine months of 2021, from 2.52% in the first nine months of 2020.

Net Interest Income and Yield Analysis

Third quarter of 2021 compared to 2020

Net interest income, taxable equivalent, increased to \$30.5 million for the third quarter of 2021, up from \$26.2 million for the third quarter of 2020. Net interest income was positively impacted, compared to the prior year, primarily by the increase in loan and lease balances, PPP and loan fees accretion and the reduction in interest expense on interest bearing liabilities. Average interest-earning assets increased from \$3.08 billion for the third quarter of 2020, to \$3.61 billion for the third quarter of 2021, primarily because of the Company's continued organic loan and lease growth, acquisition of Fountain completed on May 3, 2021, acquisition of SCB completed September 1, 2021, participation in the PPP, and the increase in our overall liquidity position. Over this period, average loan and lease balances increased by \$122.4 million, average federal funds sold and other interest earning assets increased by \$363.9 million, average interest-bearing deposits increased

[Table of Contents](#)

by \$562.7 million, average noninterest-bearing deposits increased \$228.3 million and average borrowings decreased \$239.1 million. The tax equivalent net interest margin decreased to 3.35% for the third quarter of 2021, compared to 3.39% for the third quarter of 2020. The yield on earning assets decreased from 3.88% for the third quarter of 2020, to 3.67% for the third quarter of 2021, primarily due to lower yielding excess liquidity. The cost of average interest-bearing deposits decreased from 0.59% for the third quarter of 2020, to 0.34% for the third quarter of 2021, primarily due to a lower interest rate environment during the period.

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

	Three Months Ended September 30,					
	2021			2020		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets:						
Loans and leases, including fees ¹	\$ 2,532,604	31,623	4.95 %	\$ 2,410,173	28,508	4.71 %
Loans held for sale	3,987	51	5.09 %	8,048	113	5.57 %
Taxable securities	187,032	832	1.77 %	132,642	546	1.64 %
Tax-exempt securities ²	87,621	477	2.16 %	88,129	515	2.32 %
Federal funds sold and other earning assets	802,712	474	0.23 %	438,785	327	0.30 %
Total interest-earning assets	3,613,956	33,457	3.67 %	3,077,777	30,009	3.88 %
Noninterest-earning assets	323,067			262,764		
Total assets	<u>\$ 3,937,023</u>			<u>\$ 3,340,541</u>		
Liabilities and Shareholders' Equity:						
Interest-bearing demand deposits	\$ 763,613	\$ 414	0.21 %	\$ 509,999	\$ 199	0.16 %
Money market and savings deposits	1,233,533	854	0.27 %	833,022	704	0.34 %
Time deposits	524,327	885	0.67 %	615,714	1,994	1.29 %
Total interest-bearing deposits	2,521,473	2,153	0.34 %	1,958,735	2,897	0.59 %
Borrowings ³	80,188	121	0.60 %	319,265	334	0.42 %
Subordinated debt	40,211	654	6.47 %	39,311	584	5.91 %
Total interest-bearing liabilities	2,641,872	2,928	0.44 %	2,317,311	3,815	0.65 %
Noninterest-bearing deposits	877,831			649,489		
Other liabilities	24,522			25,834		
Total liabilities	3,544,225			2,992,634		
Shareholders' equity	392,798			347,907		
Total liabilities and shareholders' equity	<u>\$ 3,937,023</u>			<u>\$ 3,340,541</u>		
Net interest income, taxable equivalent		<u>\$ 30,529</u>			<u>\$ 26,194</u>	
Interest rate spread			<u>3.23 %</u>			<u>3.22 %</u>
Tax equivalent net interest margin			<u>3.35 %</u>			<u>3.39 %</u>
Percentage of average interest-earning assets to average interest-bearing liabilities			<u>136.80 %</u>			<u>132.82 %</u>
Percentage of average equity to average assets			<u>9.98 %</u>			<u>10.41 %</u>

¹Loans and leases include PPP loans with an average balance of \$128.4 million and \$295.0 million for the three months ended September 30, 2021, and 2020, respectively. Loan and lease fees included in loan and lease income was \$3.5 million and \$2.7 million for the three months ended September 30, 2021, and 2020, respectively. Loan and lease fee income for the three months ended September 30, 2021 and 2020, includes \$2.9 million and \$1.8 million accretion of loan fees on PPP loans, respectively.

²Yields related to investment securities exempt from income taxes are stated on a taxable-equivalent basis assuming a federal income tax rate of 21.0%. The taxable-equivalent adjustment was \$146 thousand for the three months ended September 30, 2021 and \$151 thousand for the three months ended September 30, 2020.

³Includes average balance of \$237.8 million in Paycheck Protection Liquidity Facility ("PPPLF") funding for the quarter ended September 30, 2020. No PPPLF funding was used for the quarter ended September 30, 2021.

First nine months of 2021 compared to 2020

Net interest income, taxable equivalent, increased to \$84.0 million for the first nine months of 2021, up from \$74.8 million for the first nine months of 2020. Net interest income was positively impacted, compared to the prior year, primarily due to increases in loan and lease balances, PPP and loan fees accretion and reduction in interest expense on interest-bearing liabilities. Average interest-earning assets increased from \$2.76 billion for the first nine months of 2020, to \$3.33 billion for the first nine months of 2021, primarily as a result of the acquisition of PFG completed March 1, 2020, the acquisition of Fountain completed on May 3, 2021, acquisition of SCB completed September 1, 2021, participation in the PPP and

[Table of Contents](#)

continued organic growth. Over this period, average loan and lease balances increased by \$237.8 million, average interest-bearing deposits increased by \$460.4 million, average noninterest-bearing deposits increased \$245.1 million and average borrowings decreased \$122.0 million. The tax equivalent net interest margin decreased to 3.37% for the first nine months of 2021, compared to 3.62% for the first nine months of 2020. The yield on earning assets decreased from 4.27% for the first nine months of 2020, to 3.73% for the first nine months of 2021, primarily due to rate cuts by the Federal Reserve during the first quarter of 2020, to a lesser extent loan and lease yields declining from market competition and lower yielding excess liquidity, offset by PPP and loan fees accretion. The cost of average interest-bearing deposits decreased from 0.79% for the first nine months of 2020, to 0.39% for the first nine months of 2021, primarily due to a lower interest rate environment during the period.

	Nine Months Ended September 30,					
	2021			2020		
	<u>Average Balance</u>	<u>Interest</u>	<u>Yield/ Cost</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Yield/ Cost</u>
Assets:						
Loans and leases, including fees ¹	\$ 2,489,843	\$ 87,823	4.72 %	\$ 2,252,075	\$ 83,487	4.95 %
Loans held for sale	5,724	192	4.49 %	6,409	231	4.81 %
Taxable Securities	163,005	2,472	2.03 %	123,895	1,813	1.95 %
Tax-exempt securities ²	89,244	1,339	2.01 %	81,604	1,486	2.43 %
Federal funds and other earning assets	584,970	1,074	0.25 %	296,449	1,206	0.54 %
Total interest-earning assets	<u>3,332,786</u>	<u>92,900</u>	<u>3.73 %</u>	<u>2,760,432</u>	<u>88,223</u>	<u>4.27 %</u>
Noninterest-earning assets	295,074			248,293		
Total assets	<u>\$ 3,627,860</u>			<u>\$ 3,008,725</u>		
Liabilities and Stockholders' Equity:						
Interest-bearing demand deposits	\$ 698,148	974	0.19 %	\$ 451,074	782	0.23 %
Money market and savings deposits	1,112,342	2,580	0.31 %	749,316	2,707	0.48 %
Time deposits	517,566	3,179	0.82 %	667,303	7,527	1.51 %
Total interest-bearing deposits	<u>2,328,056</u>	<u>6,733</u>	<u>0.39 %</u>	<u>1,867,693</u>	<u>11,016</u>	<u>0.79 %</u>
Borrowings ³	81,177	360	0.59 %	203,202	674	0.44 %
Subordinated debt	39,650	1,823	6.15 %	39,290	1,751	5.95 %
Total interest-bearing liabilities	<u>2,448,883</u>	<u>8,916</u>	<u>0.49 %</u>	<u>2,110,185</u>	<u>13,441</u>	<u>0.85 %</u>
Noninterest-bearing deposits	782,960			537,860		
Other liabilities	21,553			23,826		
Total liabilities	<u>3,253,396</u>			<u>2,671,871</u>		
Stockholders' equity	374,464			336,854		
Total liabilities and stockholders' equity	<u>\$ 3,627,860</u>			<u>\$ 3,008,725</u>		
Net interest income, taxable equivalent		<u>\$ 83,984</u>			<u>\$ 74,782</u>	
Interest rate spread			<u>3.24 %</u>			<u>3.42 %</u>
Tax equivalent net interest margin			<u>3.37 %</u>			<u>3.62 %</u>
Percentage of average interest-earning assets to average interest-bearing liabilities			<u>136.09 %</u>			<u>130.81 %</u>
Percentage of average equity to average assets			<u>10.32 %</u>			<u>11.20 %</u>

¹Loans and leases include PPP loans with an average balance of \$235.0 million and \$169.6 million for the nine months ended September 30, 2021, and 2020, respectively. Loan and lease fees included in loan and lease income was \$9.0 million and \$6.3 million for the nine months ended September 30, 2021, and 2020, respectively. Loan lease fee income for the nine months ended September 30, 2021 and 2020, includes \$7.4 million and \$3.7 million accretion of loan fees on PPP loans, respectively.

²Yields related to investment securities exempt from income taxes are stated on a taxable-equivalent basis assuming a federal income tax rate of 21.0%. The taxable-equivalent adjustment was \$445 thousand for the nine months ended September 30, 2021 and \$422 thousand for the nine months ended September 30, 2020.

³Includes average balance of \$115.7 million in PPPLF funding for the nine months ended September 30, 2020. No PPPLF funding was used for the nine months ended September 30, 2021.

Noninterest Income

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

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2021	2020	Change	2021	2020	Change
Service charges on deposit accounts	\$ 1,220	\$ 892	\$ 328	\$ 3,278	\$ 2,370	\$ 908
Gain (loss) on sale of securities	45	(9)	54	45	6	39
Mortgage banking	994	1,029	(35)	3,238	2,544	694
Investment services	448	359	89	1,546	1,159	387
Insurance commissions	745	560	185	2,768	1,302	1,466
Interchange and debit card transaction fees, net	1,078	868	210	2,839	1,652	1,187
Other	1,779	422	1,357	3,429	1,417	2,012
Total noninterest income	<u>\$ 6,309</u>	<u>\$ 4,121</u>	<u>\$ 2,188</u>	<u>\$ 17,143</u>	<u>\$ 10,450</u>	<u>\$ 6,693</u>

Third quarter of 2021 compared to 2020

Noninterest income increased by \$2.2 million, or 53.1%, during the third quarter of 2021 compared to the same period in 2020. This quarterly change in total noninterest income primarily resulted from the following:

- Increase in service charges on deposit accounts, related to the SCB acquisition, deposit growth and transaction volume;
- Increase insurance commissions due to increased activity;
- Increase in interchange and debit card transaction fees, related to increased volume, deposit growth and the SCB acquisitions; and
- Increase in other, primarily from new fee income from the acquisition of Fountain, cash surrender value of bank owned life insurance (“BOLI”) from the additional BOLI purchased during the first quarter of 2021 and SWAP fee income from the newly created capital markets program in the second quarter of 2021.

First nine months of 2021 compared to 2020

Noninterest income increased by \$6.7 million, or 64.0%, during the first nine months of 2021 compared to the same period in 2020. This change in total noninterest income primarily resulted from the following:

- Increase in service charges on deposit accounts, related to the PFG and SCB acquisitions, deposit growth and transaction volume;
- Increase in mortgage banking, from increased volume due to low rate environment;
- Increase in investment services, stemming from increased production;
- Increase in insurance commissions, primarily from a full nine months of insurance commissions in 2021 and placement of life insurance policies during the first quarter of 2021;
- Increase in interchange and debit card transaction fees, related to increased volume, deposit growth and the PFG and SCB acquisitions; and
- Increase in other, primarily from new fee income from the acquisition of Fountain, cash surrender value of bank owned life insurance from the additional BOLI purchased during the first quarter of 2021 and SWAP fee income from the newly created capital markets program in the second quarter of 2021.

Noninterest Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
Salaries and employee benefits	\$ 13,594	\$ 11,032	\$ 2,562	\$ 36,666	\$ 31,395	\$ 5,271
Occupancy and equipment	2,536	2,186	350	7,170	6,093	1,077
FDIC insurance	525	534	(9)	1,266	894	372
Other real estate and loan related expense	407	643	(236)	1,514	1,535	(21)
Advertising and marketing	235	253	(18)	654	653	1
Data processing and technology	1,753	1,131	622	4,642	3,293	1,349
Professional services	810	594	216	2,300	2,172	128
Amortization of intangibles	711	402	309	1,597	1,169	428
Merger related and restructuring expenses	464	290	174	939	3,863	(2,924)
Other	2,274	2,102	172	6,822	5,699	1,123
Total noninterest expense	\$ 23,309	\$ 19,167	\$ 4,142	\$ 63,570	\$ 56,766	\$ 6,804

Third quarter of 2021 compared to 2020

Noninterest expense increased by \$4.1 million, or 21.6%, in the third quarter of 2021 as compared to the same period in 2020. The quarterly increase in total noninterest expense primarily resulted from the following:

- Increase in salary and employee benefits, related to the Fountain acquisition completed May 3, 2021, SCB acquisition completed September 1, 2021, and overall franchise growth from talent hired in Auburn, Dothan, Montgomery and Birmingham, Alabama and Tallahassee, Florida;
- Increase in occupancy and equipment, due to ongoing infrastructure and facilities added to accommodate growth in operations; and
- Increase in data processing and technology, primarily from continued infrastructure build and overall growth.

First nine months of 2021 compared to 2020

Noninterest expense increased by \$6.8 million, or 12.0%, in the first nine months of 2021 as compared to the same period in 2020. The change in total noninterest expense primarily resulted from the following:

- Increase in salary and employee benefits, related to the PFG acquisition, Fountain acquisition completed May 3, 2021, SCB acquisition completed September 1, 2021, and overall franchise growth from talent hired in Auburn, Dothan, Montgomery and Birmingham Alabama, and Tallahassee, Florida;
- Increase in occupancy and equipment, due to ongoing infrastructure and facilities added to accommodate growth in operations;
- Increase in FDIC insurance, related to continued asset growth;
- Increase in data processing and technology, primarily from continued infrastructure build and overall growth; and
- Other increased, primarily from an investment in a start-up fintech company and other expenses related to continued franchise growth.

[Table of Contents](#)

Taxes

Third quarter of 2021 compared to 2020

In the third quarter of 2021 income tax expense totaled \$2.6 million compared to \$2.0 million in the third quarter of 2020. The effective tax rate was approximately 22.0% in the third quarter of 2021 compared to 23.5% third quarter of 2020. The lower effective tax rate for the third quarter of 2021 compared to same quarter in 2020 was due to a proportional higher amount of non-taxable income in relation to income taxes.

First nine months of 2021 compared to 2020

In the first nine months of 2021 income tax expense totaled \$7.8 million compared to \$4.1 million in the first nine months of 2020. The effective tax rate was approximately 21.6% for first nine months of 2021 compared to 21.0% a year ago. The higher effective tax rate for the first nine months of 2021 compared to same period in 2020 was due to 2020 having a proportionately higher amount of non-taxable income in relation to income before taxes and, as part of the CARES Act legislation, a tax benefit realized from the recognition of net operating loss carryforwards from past acquisitions.

Loan and Lease Portfolio

The Company had total net loans and leases outstanding, including organic and acquired loans and leases, of approximately \$2.63 billion at September 30, 2021 compared to \$2.36 billion at December 31, 2020. Loans secured by real estate, consisting of commercial and residential property, are the principal component of our loan and lease portfolio.

Organic Loans and Leases

Our organic net loans and leases, which excludes loans and leases purchased through acquisitions, increased by \$132.2 million, or 6.7%, from December 31, 2020, to \$2.11 billion at September 30, 2021. Included in the growth was \$138.4 million of PPP loans that were originated and funded during the first nine months of 2021 and offset by \$341.5 million in forgiven PPP loans originated in 2020 and 2021. Total net deferred fees associated with the PPP loans originated during the first nine months of 2021 was approximately \$7.0 million with \$3.2 million accreted into income.

Acquired Loans and Leases

Purchased non-credit impaired loans and leases of \$476.5 million at September 30, 2021 increased by \$125.8 million from December 31, 2020. Since December 31, 2020, our net purchased credit impaired (“PCI”) loans and leases, net increased by \$11.4 million to \$43.2 million at September 30, 2021. The increase in purchased non-credit impaired loans and leases and PCI loans and leases is related to the acquisition of Fountain and SCB and offset by maturities, paydowns and payoffs.

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

	September 30, 2021				% of Gross Total
	Organic	Purchased Non-Credit Impaired	Purchased Credit Impaired	Total Amount	
Commercial real estate-mortgage	\$ 1,038,286	\$ 251,805	\$ 23,156	\$ 1,313,247	49.5 %
Consumer real estate-mortgage	339,503	127,795	10,863	478,161	18.0 %
Construction and land development	303,540	19,930	2,904	326,374	12.3 %
Commercial and industrial	426,168	40,700	2,871	469,739	17.7 %
Leases	11,625	38,023	3,748	53,396	2.0 %
Consumer and other	9,980	1,679	87	11,746	0.4 %
Total gross loans and leases receivable, net of deferred fees	2,129,102	479,932	43,629	2,652,663	100.0 %
Allowance for loan and leases losses	(15,443)	\$ (3,425)	(427)	(19,295)	
Total loans and leases, net	<u>\$ 2,113,659</u>	<u>\$ 476,507</u>	<u>\$ 43,202</u>	<u>\$ 2,633,368</u>	

[Table of Contents](#)

	December 31, 2020				
	Organic	Purchased Non-Credit Impaired	Purchased Credit Impaired	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 %
Leases	—	—	—	—	— %
Consumer and other	9,250	3,539	27	12,816	0.5 %
Total gross loans and leases receivable, net of deferred fees	1,997,579	352,600	32,064	2,382,243	100.0 %
Allowance for loan and lease losses	(16,154)	(1,883)	(309)	(18,346)	
Total loans and leases, net	\$ 1,981,425	\$ 350,717	\$ 31,755	\$ 2,363,897	

Loan and Lease Portfolio Maturities

The following table sets forth the maturity distribution of our loans and leases at September 30, 2021, including the interest rate sensitivity for loans and leases maturing after one year (*in thousands*):

	One Year or Less	One through Five Years	Over Five Years	Total	Rate Structure for Loans and Leases Maturing Over One Year	
					Fixed Rate	Floating Rate
Commercial real estate-mortgage	\$ 112,664	\$ 487,065	\$ 713,518	\$ 1,313,247	\$ 833,575	\$ 367,008
Consumer real estate-mortgage	32,951	171,718	273,492	478,161	214,867	230,343
Construction and land development	73,654	153,507	99,213	326,374	120,573	132,147
Commercial and industrial	103,351	267,296	99,092	469,739	303,865	62,523
Leases	2,248	51,148	—	53,396	51,148	—
Consumer and other	4,656	6,481	609	11,746	6,921	169
Total loans and leases	\$ 329,524	\$ 1,137,215	\$ 1,185,924	\$ 2,652,663	\$ 1,530,949	\$ 792,190

Nonaccrual, Past Due, and Restructured Loans and Leases

Nonperforming loans and leases as a percentage of total gross loans and leases, net of deferred fees, was 0.13% as of September 30, 2021, and 0.24% as of December 31, 2020, respectively. Total nonperforming assets as a percentage of total assets as of September 30, 2021, totaled 0.14% compared to 0.31% as of December 31, 2020. Acquired PCI loans and leases that are included in loan pools are reclassified at acquisition to accrual status and thus are not included as nonperforming assets.

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

	September 30, 2021	December 31, 2020
Nonaccrual loans and leases	\$ 3,567	\$ 5,633
Accruing loans and leases past due 90 days or more	—	149
Total nonperforming loans and leases	3,567	5,782
Other real estate owned	2,415	4,619
Other repossessed property	77	—
Total nonperforming assets	\$ 6,059	\$ 10,401
Restructured loans not included above	\$ 212	\$ 257

COVID-19 Loan Modifications

As a result of the CARES Act, the Company began offering short-term loan modifications to assist borrowers during the COVID-19 pandemic. At September 30, 2021, the Company had no loans remaining under COVID-19 modifications.

Allocation of the Allowance for Loan and Lease Losses

We maintain the allowance at a level that we deem appropriate to adequately cover the probable losses inherent in the loan and lease portfolio. Our provision for loan and lease losses for the nine months ended September 30, 2021, is \$1.2 million compared to \$8.7 million in the same period of 2020, a decrease of \$7.5 million. The allowance for loan and lease loss provision for the nine months ended September 30, 2020, increased due to the onset of the COVID-19 pandemic and related economic uncertainty.

As of September 30, 2021 and December 31, 2020, our allowance for loan and lease losses was \$19.3 million and \$18.3 million, respectively, which we deemed to be adequate at each of the respective dates. Our allowance for loan and lease loss as a percentage of total loans and leases was 0.73% at September 30, 2021 and 0.77% at December 31, 2020.

Our purchased loans and leases were recorded at fair value upon acquisition. The fair value adjustments on the performing purchased loans and leases will be accreted into income over the life of the loans and leases. A provision for loan and lease losses is recorded for any deterioration in these loans and leases subsequent to the acquisition. As of September 30, 2021, the notional balances on PCI loans and leases was \$56.6 million while the carrying value was \$43.6 million. At September 30, 2021, there was an allowance on PCI loans and leases of \$427 thousand.

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

	September 30, 2021		December 31, 2020	
	Amount	Percent	Amount	Percent
Commercial real estate-mortgage	\$ 9,405	49.5 %	\$ 7,579	42.5 %
Consumer real estate-mortgage	3,541	18.0 %	3,471	18.6 %
Construction and land development	2,218	12.3 %	2,076	11.7 %
Commercial and industrial	3,801	17.7 %	5,107	26.6 %
Leases	225	2.0 %	—	— %
Consumer and other	105	0.4 %	113	0.5 %
Total allowance for loan and lease losses	\$ 19,295	100.0 %	\$ 18,346	100.0 %

The allocation by category is determined based on the loans and leases individually assigned risk rating, if applicable, and environmental factors applicable to each category of loan and lease. For impaired loans and leases, those loans and leases are reviewed for a specific allowance allocation. Specific valuation allowances related to impaired, non PCI, loans and leases were approximately \$586 thousand at September 30, 2021, compared to \$237 thousand at December 31, 2020.

Analysis of the Allowance for Loan and Lease Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Balance at beginning of period	\$ 18,310	\$ 16,254	\$ 18,346	\$ 10,243
Provision for loan and lease losses	1,149	2,634	1,211	8,683
Charged-off loans and leases:				
Commercial real estate-mortgage	—	—	—	—
Consumer real estate-mortgage	—	(21)	(60)	(23)
Construction and land development	—	—	—	—
Commercial and industrial	(41)	(60)	(45)	(77)
Leases	(68)	—	(68)	—
Consumer and other	(132)	(89)	(341)	(231)
Total charged-off loans and leases	(241)	(170)	(514)	(331)
Recoveries of previously charged-off loans and leases:				
Commercial real estate-mortgage	23	11	29	16
Consumer real estate-mortgage	13	17	34	34
Construction and land development	—	—	—	2
Commercial and industrial	3	55	13	103
Leases	5	—	5	—
Consumer and other	33	16	171	67
Total recoveries of previously charged-off loans and leases	77	99	252	222
Net loan and lease charge-offs	(164)	(71)	(262)	(109)
Balance at end of period	\$ 19,295	\$ 18,817	\$ 19,295	\$ 18,817
Ratio of allowance for loan and lease losses to total loans and leases outstanding at end of period	0.73 %	0.78 %	0.73 %	0.78
Ratio of net loan and lease charge-offs to average loans and leases outstanding for the period	0.03 %	— %	0.01 %	—

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 and lease portfolio, past loan and lease loss experience, known and inherent risks in the portfolio, the views of the Bank's regulators, adverse situations that may affect borrowers' ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan and lease portfolio, economic conditions, industry and peer bank loan and lease 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 and leases that may be susceptible to significant change.

Securities Portfolio

Our securities portfolio, consisting primarily of Federal agency bonds, state and municipal securities, and mortgage-backed securities, amounted to fair values of \$339.3 million and \$215.6 million at September 30, 2021 and December 31, 2020, respectively. Our investments to assets ratio increased from 6.5% at December 31, 2020 to 7.7% at September 30, 2021. Our securities portfolio serves many purposes including serving as a potential liquidity source, collateral for public funds, and as a stable source of income. All of the Company's securities are designated as available-for-sale.

The following table shows the amortized cost of the Company's securities, all investment securities were classified as available for sale (*in thousands*):

	September 30, 2021	December 31, 2020
U.S. Treasury	\$ 93,910	\$ —
U.S. Government-sponsored enterprises (GSEs)	54,175	30,526
Municipal securities	93,422	89,644
Other debt securities	25,996	25,019
Mortgage-backed securities	68,837	66,425
Total securities	\$ 336,340	\$ 211,614

[Table of Contents](#)

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 September 30, 2021. The composition and maturity/repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs (*dollars in thousands*):

	Maturity By Years				Total
	1 or Less	1 to 5	5 to 10	Over 10	
U.S. Treasury	\$ 59,999	\$ —	\$ 33,911	\$ —	\$ 93,910
U.S. Government agencies	—	—	25,590	28,585	54,175
State and political subdivisions	1,261	2,830	6,677	82,654	93,422
Other debt securities	—	987	24,509	500	25,996
Mortgage-backed securities	—	2,653	11,173	55,011	68,837
Total securities	\$ 61,260	\$ 6,470	\$ 101,860	\$ 166,750	\$ 336,340
Weighted average yield ⁽¹⁾	0.08 %	1.56 %	2.25 %	2.51 %	1.97 %

(1) Based on amortized cost, taxable equivalent basis

Deposits

Deposits are the primary source of funds for the Company's lending and investing activities. The Company provides a range of deposit services to businesses and individuals, including noninterest-bearing checking accounts, interest-bearing checking accounts, savings accounts, money market accounts, IRAs and CDs. These accounts generally earn interest at rates the Company establishes based on market factors and the anticipated amount and timing of funding needs. The establishment or continuity of a core deposit relationship can be a factor in loan pricing decisions. While the Company's primary focus is on establishing customer relationships to attract core deposits, at times, the Company uses brokered deposits and other wholesale deposits to supplement its funding sources. As of September 30, 2021, brokered deposits represented approximately 1.4% of total deposits.

The Company believes its deposit product offerings are properly structured to attract and retain core low-cost deposit relationships. The average cost of interest-bearing deposits for the three months ended September 30, 2021 and 2020, was 0.34% and 0.59%, respectively. The decrease cost was primarily due to maturing and repricing of time deposits, which decreased by 62 basis points. The average cost of interest-bearing deposits for the nine months ended September 30, 2021 and 2020, was 0.39% and 0.79%, respectively. The decreased cost of interest-bearing deposits was due to the maturing and changes in rates caused by federal rate-changes during the periods.

Total deposits as of September 30, 2021, were \$3.80 billion, which was an increase of \$994.1 million from December 31, 2020. This increase was primarily from organic deposit growth and the acquisition of SCB. As of September 30, 2021, the Company had outstanding time deposits under \$250,000 with balances of \$432.8 million and time deposits over \$250,000 with balances of \$152.9 million.

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

	September 30, 2021
Three months or less	\$ 39,165
Three to six months	30,888
Six to twelve months	42,425
More than twelve months	40,427
Total	\$ 152,905

Borrowings

The Company uses short-term borrowings and long-term debt to provide both funding and, to a lesser extent, regulatory capital using debt at the Company level which can be downstreamed as Tier 1 capital to the Bank. Borrowings totaled \$88.7 million at September 30, 2021, and consisted of \$75.0 million in FHLB borrowing and short-term borrowings totaled \$13.7 million and consisted of \$7.5 million with ServisFirst Bank and \$6.3 million of securities sold under repurchase agreements. Long-term debt totaled \$41.9 million at September 30, 2021, and \$39.3 million at December 31, 2020, and consisted entirely of subordinated debt. For more information regarding our borrowings, see "Part I - Item 1. Consolidated Financial Statements - Note 7 – *Borrowings and Line of Credit.*"

Capital Resources

The Company uses leverage analysis to examine the potential of the institution to increase assets and liabilities using the current capital base. The key measurements included in this analysis are the Bank's Common Equity Tier 1 capital, Tier 1 capital, leverage and total capital ratios. At September 30, 2021 and December 31, 2020, our capital ratios, including our Bank's capital ratios, exceeded regulatory minimum capital requirements. From time to time we may be required to support the capital needs of our bank subsidiary. We believe we have various capital raising techniques available to us to provide for the capital needs of our bank, if necessary. For more information regarding our capital, leverage and total capital ratios, see "Part I - Item 1. Consolidated Financial Statements - Note 13 - *Regulatory Matters.*"

Liquidity and Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing and depository needs of its customers. At September 30, 2021, we had \$616.3 million of pre-approved but unused lines of credit and \$10.4 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. For more information regarding our off-balance sheet arrangements, see "Part I - Item 1. Consolidated Financial Statements - Note 9 – *Commitments and Contingent Liabilities.*"

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 and lease, capital and investment policies. The ALCO must consider interest rate sensitivity and liquidity risk management when rendering a decision on funding solutions and loan and lease 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 leases 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

[Table of Contents](#)

periodically monitor simulations based on various rate scenarios such as non-parallel shifts in market interest rates over time. For changes up or down in rates from our dynamic interest rate forecast over the next 12 and 24 months, limits in the decline in net interest income are as follows:

	Estimated % Change in Net Interest Income Over 12 Months		Maximum Percentage Decline in Net Interest Income from the Budgeted or Base Case Projection of Net Interest Income
	Increase +	Decrease -	Next 12 Months
September 30, 2021:			
An instantaneous, parallel rate increase or decrease of the following at the beginning of the third quarter:			
± 100 basis points	7.57%	(0.69)%	8%
± 200 basis points	15.37%	(1.40)%	14%

At September 30, 2021, our model results indicated that we were within our policy limits, except for the increase of plus 200 basis points, due to excess cash on the balance sheet.

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 -	
September 30, 2021:			
Instantaneous, Parallel Change in Prevailing Interest Rates Equal to:			
±100 basis points	5.36%	(8.98)%	10%
±200 basis points	10.79%	(10.69)%	15%

At September 30, 2021, our model results indicated that we were within our policy limits.

Liquidity Risk Management

The purpose of liquidity risk management is to ensure that there are sufficient cash flows to satisfy loan and lease 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.

[Table of Contents](#)

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

The Company has \$61.3 million in investments that mature throughout the next 12 months. The Company also anticipates \$11.2 million of principal payments from mortgage-backed securities over the same period. The Company also has unused borrowing capacity in the amount of \$263.8 million available with the Federal Reserve, FHLB, several correspondent banks and a line of credit. With these sources of funds, the Company currently anticipates adequate liquidity to meet the expected obligations of its customers.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

This item is not required for a Smaller Reporting Company.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including SmartFinancial’s Chief Executive Officer and Chief Financial Officer, SmartFinancial has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of June 30, 2021 (the “Evaluation Date”). Based on such evaluation, SmartFinancial’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, SmartFinancial’s disclosure controls and procedures were effective to ensure that information required to be disclosed by SmartFinancial in the reports that it files or submits under the Exchange Act is (i) accumulated and communicated to SmartFinancial’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decision regarding the required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

There were no changes in SmartFinancial’s internal control over financial reporting during SmartFinancial’s fiscal quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, SmartFinancial’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended December 31, 2020. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Please be aware that these risks may change over time and other risks may prove to be important in the future. In addition, these risks may be heightened by the continued disruption and uncertainty resulting from COVID-19. There have been no material changes from the risk factors described in our Form 10-K for the year ended December 31, 2020.

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

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

On November 20, 2018, the Company announced that its board of directors has authorized a stock repurchase plan pursuant to which the Company may purchase up to \$10.0 million in shares of the Company's outstanding common stock. Stock repurchases under the plan will be made from time to time in the open market, at the discretion of the management of the Company, and in accordance with applicable legal requirements. The stock repurchase plan does not obligate the Company to repurchase any dollar amount or number of shares, and the program may be extended, modified, amended, suspended, or discontinued at any time. As of September 30, 2021, we have purchased \$5.5 million of the authorized \$10.0 million and may purchase up to an additional \$4.5 million in the Company's outstanding common stock.

The following table summarizes the Company's repurchase activity during the three months ended September 30, 2021.

Period	Total Number of Shares Repurchased	Weighted Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
July 1, 2021 to July 31, 2021	—	\$ —	—	\$ 4,484
August 1, 2021 to August 31, 2021	—	—	—	4,484
September 1, 2021 to September 30, 2021	—	—	—	4,484
Total	—	\$ —	—	\$ 4,484

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

[Table of Contents](#)

Item 6. Exhibits

Exhibit No.	Description	Location
2.1	Agreement and Plan of Merger, dated April 13, 2021, by and between SmartFinancial, Inc. and Sevier County Bancshares, Inc.	Incorporated by reference to Exhibit 2.1 to Form 8-K filed April 14, 2021
2.2	Purchase Agreement, dated as of May 2, 2021, by and among Warren Payne, G. Price Cooper, B. Wade West, Craig Phillipy, and SmartBank	Incorporated by reference to Exhibit 2.1 to Form 8-K filed May 3, 2021
3.1	Second Amended and Restated Charter of SmartFinancial, Inc.	Incorporated by reference to Exhibit 3.3 to Form 8-K filed September 2, 2015
3.2	Second Amended and Restated Bylaws of SmartFinancial, Inc.	Incorporated by reference to Exhibit 3.1 to Form 8-K filed October 26, 2015
10.1	First Amendment to Loan and Security Agreement, dated as of September 23, 2021, by and between SmartFinancial, Inc. and ServisFirst Bank	Incorporated by reference to Exhibit 10.1 to Form 8-K filed September 28, 2021
31.1	Certification pursuant to Rule 13a -14(a)/15d-14(a)	Filed herewith.
31.2	Certification pursuant to Rule 13a -14(a)/15d-14(a)	Filed herewith.
32.1	Certification pursuant to 18 USC Section 1350 -Sarbanes-Oxley Act of 2002	Furnished herewith.
32.2	Certification pursuant to 18 USC Section 1350 -Sarbanes-Oxley Act of 2002	Furnished herewith.
101	Interactive Data Files (formatted as Inline XBRL)	Filed herewith.
104	Cover Page Interactive Data File (Formatted as Inline XBRL and contained in Exhibit 101)	Filed herewith

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

SIGNATURES

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

SmartFinancial, Inc.

Date: November 9, 2021

/s/ William Y. Carroll, Jr.

William Y. Carroll, Jr.
President and Chief Executive Officer
(principal executive officer)

Date: November 9, 2021

/s/ Ronald J. Gorczynski

Ronald J. Gorczynski
Executive Vice President and Chief Financial Officer
(principal financial officer and accounting officer)

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of SmartFinancial, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying 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: November 9, 2021

/s/ William Y. Carroll, Jr.

William Y. Carroll, Jr.

President and Chief Executive Officer

CERTIFICATION

I, Ronald J. Gorczynski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SmartFinancial, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying 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: November 9, 2021

/s/ Ronald J. Gorczynski

Ronald J. Gorczynski

Executive Vice President and Chief Financial Officer

**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 Quarterly Report of SmartFinancial, Inc., (the "Company") on Form 10-Q for the quarter ended September 30, 2021, 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: November 9, 2021

/s/ William Y. Carroll, Jr.

William Y. Carroll, Jr.

President and Chief Executive Officer

**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 Quarterly Report of SmartFinancial, Inc., (the "Company") on Form 10-Q for the quarter ended September 30, 2021, 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: November 9, 2021

/s/ Ronald J. Gorczynski

Ronald J. Gorczynski

Executive Vice President and Chief Financial Officer
