



SmartFinancial, Inc.

2015 ANNUAL REPORT



BILL CARROLL
VICE-CHAIRMAN

**MILLER
WELBORN**
CHAIRMAN

BILLY CARROLL
PRESIDENT & CEO



SmartFinancial, Inc.

SmartFinancial, Inc., headquartered in Knoxville, Tennessee, is the bank holding company for SmartBank. SmartBank organized in 2006 with the vision to build an innovative and dynamic bank with the image, values and service level unlike any other community bank in the market. SmartBank opened its first office in January 2007 in Pigeon Forge, Tennessee and has since expanded its footprint across several of the Southeast's strongest and most desired markets. Pairing these markets with the best people, the right technology and innovative products will fuel the company's expansion and pave the way for future growth opportunities.

SHAREHOLDERS

TO THE SHAREHOLDERS OF **SmartFinancial, Inc.**

2015 was a very exciting year in our company's history marking several notable accomplishments! Our markets are strong, our team has great energy, and our future is extremely bright. We are well on our way in creating what we believe will be one of the Southeast's next great banking platforms! The highlights of the year include:

- ▲ Successfully completed the **merger with Cornerstone Bancshares, Inc.**
- ▲ Began trading on the **Nasdaq Capital Market** under the ticker symbol SMBK
- ▲ Reached the **\$1 billion** plateau in assets

The strength of our combined management teams has been key to a **successful integration** of our two banks. Our **knowledgeable, talented and experienced people** paved the way to positive results as we united our teams while onboarding thousands of clients to SmartBank. Our teams worked hard during the year strategizing on best operational practices, cultural integration, and the merger of the bank's core operating systems. The banks productively merged as one on February 29th, 2016, under the SmartBank name adding five branches in the thriving Chattanooga MSA.

We are **committed to our shareholders**, and our primary objective will always be to **improve and increase shareholder value** through disciplined decision making, innovative growth strategies and smarter banking practices. We are excited about the opportunities for continued growth and market expansion given the scale of our now plus \$1 billion financial institution serving several of the Southeast's strongest and most desired markets. Chattanooga, Knoxville, Pensacola and Panama City are some of the region's strongest MSAs, and the tourism areas of Destin, Florida and Pigeon Forge, Gatlinburg, and Sevierville, Tennessee are among the most visited destinations in the entire United States. These markets, paired with our experienced team, will allow for **tremendous growth opportunities**.

As we grow and redefine banking for the future, we will remain a community bank, with a heart and soul centered on relationships and the communities we serve. We are **committed to building a strong brand that adds value** for you, our shareholders. On behalf of our fellow Board members, management team, and associates, we would like to **thank you for your support and loyalty** to SmartBank.

Sincerely,



Miller Welborn

CHAIRMAN OF THE BOARD
SMARTFINANCIAL, INC.



Billy Carroll

PRESIDENT & CEO
SMARTFINANCIAL, INC.



VISION

Our vision is to build exceptional value for our brand and for our **CLIENTS, COMMUNITIES, ASSOCIATES, and SHAREHOLDERS** by delivering more than they think possible.

We build exceptional value for our **CLIENTS** by demonstrating incomparable care for their needs and increasing their financial wealth.

We build exceptional value in our **COMMUNITIES** by providing lasting solutions to their problems and protecting their greatest assets.

We build exceptional value for our **ASSOCIATES** by fostering a more fulfilling environment that respects individual needs, establishes high expectations and recognizes achievement.

We build exceptional value for our **SHAREHOLDERS** by managing growth and maximizing profitability, return on investment, stock value, dividends, and liquidity.

We've achieved this through the integrity and innovation of our associates and directors – it's

THE SMARTBANK WAY.

MISSION

SMARTFINANCIAL BOARD OF DIRECTORS



MILLER WELBORN
Chairman



BILL CARROLL
Vice-Chairman



BILLY CARROLL
President & CEO



VIC BARRETT
Co-founder and Partner of
The Track Recreation Center



MONIQUE BERKE
Vice President of Business
Transformation at CBL
& Associates Properties



FRANK MCDONALD
President of
FMA Architects, PLLC



TED MILLER
Business Manager and Partner
of Dolly Parton Productions



DAVID OGLE
President and Co-founder of
Five Oaks Development Group



DR. DOYCE PAYNE
Obstetrics and Gynecology
Physician



DR. KEITH WHALEY
Founder of
Whaley Family Eye Care



GEOFF WOLPERT
Owner of The Park Grill and
The Peddler Steakhouse

SmartFinancial, Inc.
announced trading on the
Nasdaq Capital Market
on December 21, 2015.

Ticker symbol:
SMBK





In early 2016, SmartBank's footprint expanded adding five additional branches in the Chattanooga Market through the merger of SmartBank and Cornerstone Community Bank. SmartBank's innovative approach to banking combined with cutting-edge products, use of technology, extended hours and superior client service make the brand a great fit for the thriving Chattanooga community.

SMARTBANK IN CHATTANOOGA!

DOWNTOWN ▲ EAST RIDGE ▲ GUNBARREL ▲ HIXSON ▲ OOLTEWAH

MARKETS WE SERVE



DOWNTOWN • EAST RIDGE • GUNBARREL • HIXSON • COLTEWAH

Known as “The Scenic City,” Chattanooga is the 4th largest city in the state of Tennessee and is located near the border of Georgia at the junction of four interstate highways. The city has received national recognition for the renaissance of its beautiful downtown and redevelopment of its riverfront, and major attractions and festivals bring thousands of people to the area annually.

Hamilton County retail sales tax collected Oct 2013 – Sep 2014: \$9,019,490.48 (+3.5%).

Chattanooga has 29 major employers with over 500 full time employees (2014).

Chattanooga was selected to host U.S. Ironman in September 2014.

Volkswagen plans to add S.U.V. line to their Chattanooga plant.

Chattanooga’s Amazon Distribution Center plans to expand.

Fast Internet is Chattanooga’s New Locomotive – “Gig City” offers the first Gigabit broadband service in the U.S.

Chattanooga was voted one of the “Top 100 Best Places to Live.”

Chattanooga was voted one of the “10 Best U.S. Cities to Retire.”

Chattanooga is the #3 Most Affordable City in America to Buy a New Home.

Chattanooga is on the Top 50 list of “Next Great Adventure Towns.”

Chattanooga is “#1 for Economic Growth.”

Chattanooga was voted “#1 Best Small City (pop. 100,000 - 250,000) for Young Entrepreneurs.”

Chattanooga was voted among “Smartest Cities for Ideas, Trends & Innovators.”



FLORIDA PANHANDLE

DESTIN • PENSACOLA • PANAMA CITY

Florida is the perfect climate for business. From its talented workforce to its strategic geographic location, Florida offers the ideal conditions for businesses to thrive. In Florida, new opportunities are being cultivated and a cost-competitive environment allows you to expand your reach to a level that welcomes and celebrates your success.

Florida ranks #2 in the nation of “Best States for Business.” More than 500 CEOs across the U.S. rated states on a wide range of criteria from taxation and regulation to workforce quality and living environment.

Florida LambdaRail (FLR) is the beginning of the communication network for the future; a file that was previously too large to email will be a drop in the ocean with the LambdaRail system. The FLR was created to facilitate advanced research, education, and economic development activities in the state of Florida, utilizing next-generation network technologies, protocols, and services.

Florida is the 4th largest economy in the U.S.

Florida’s agile transportation network sets the standard for efficiency. With one of the most extensive multi-modal infrastructures in the world, Florida boasts 2 spaceports, 15 deepwater seaports and 19 commercial airports.

Business dollars go a lot further given Florida’s limited corporate taxes and no state personal income tax. Businesses thrive in this low-tax environment and employees enjoy the benefit of no personal income tax.



SEVIER COUNTY

SEVIERVILLE • PIGEON FORGE • GATLINBURG

Sitting at the foothills of the Great Smoky Mountains National Park is a tourism hub of great economic impact for the state of Tennessee. Featuring one of the nation's most sought-after venues for shopping and attractions, Sevier County is not only a picturesque destination, but offers a profitable opportunity for business.

Sevier County is home to Rocky Top Sports World (opened in Summer 2014), an 80-acre premier sports tournament destination, projected to generate a \$10,054,032 total economic impact in new spending in Sevier County in the first year.

Sevier County is home to approximately 93,500 people. The median price of home sales has been rising steadily since 2011, and the 2012 cost of living index measured at 83.1, low compared to the U.S. average of 100.

Sevier County ranks 3rd in Tennessee in TOTAL tourism spending, 2nd for percentage growth in tourism spending since 2004, and generates \$116.17 million in total sales tax by the Hospitality and Tourism Industry per year.

Gatlinburg was named one of the top ten prettiest cities by Forbes.

The Great Smoky Mountains National Park – the most visited national park in the United States – hosts approximately 10 million visitors annually.



KNOXVILLE

CEDAR BLUFF • BEARDEN

Knoxville's roots run deep and strong. The city has served as the hub of the region since its founding in 1791. The best of its Appalachian heritage remains today - a strong work ethic, a family-centered community, and an intense respect for the natural beauty that envelops the region.

Of more than 150 hospitals in Tennessee, in 2013 U.S. News & World Report released its annual list of "America's Best Hospitals," naming three Knoxville area Covenant Health hospitals – Fort Sanders Regional Medical Center, Methodist Medical Center, and Parkwest Medical Center – in Tennessee's Top 10 for metro areas.

The Knoxville-Oak Ridge Innovation Valley is a regional economic development initiative which encourages the work of some of the world's most advanced minds and includes businesses like Oak Ridge National Laboratories (ORNL), Scripps Networks, Pilot-Flying J, Regal Entertainment, Clayton Homes and other major organizations.

Knoxville is ranked 8th among the fastest growing cities and 10th for economic growth potential by Business Facilities Magazine in 2012.

Knoxville is ranked 99th among the world's 300 largest metro economies, due to economic performance and job growth in 2014.

Knoxville is #1 in Green Job Growth (The Brookings Institute).

Knoxville's economy is bolstered by the headquarters of the Tennessee Valley Authority and the University of Tennessee at Knoxville – home to nationally acclaimed schools of engineering, business and law.

A state-of-the-art telecommunications and fiber optic network structure supports downtown Knoxville.

Knoxville boasts a strategic location at the center of the Eastern half of the United States and within one day's drive of three-quarters of the U.S. population.



SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF SMARTFINANCIAL

The following selected historical consolidated financial data as of and for the years ended December 31, 2015 and 2014 is derived from the audited consolidated financial statements of the company, which includes four months of Cornerstone Community Bank results in 2015.

(Amounts are in thousands, except ratios, per share data, branches and FTEs.)

	Years Ended December 31,	
	2015	2014
SUMMARY OF OPERATIONS		
Total interest income	\$ 27,753	\$ 20,691
Total interest expense	2,757	2,037
Net interest income	24,996	18,655
Provision for loan losses	923	432
Net interest income after provision for loan losses	24,073	18,223
Non-interest income	2,243	1,171
Non-interest expense	23,166	16,443
Income before income taxes	3,150	2,950
Income tax expense	1,641	1,118
Consolidated net income	1,510	1,833
Preferred stock dividend	120	120
Net income available to common stockholders	1,390	1,713
SHARE AND PER COMMON SHARE DATA:		
Basic earnings per share	\$ 0.35	\$ 0.58
Diluted earnings per share	0.32	0.52
Common equity per common share outstanding	15.19	14.80
Tangible book value per common share	13.99	14.71
Dividends per common share	—	—
Preferred shares outstanding	12,000	12,000
Actual common shares outstanding	5,806,477	2,965,783
Weighted average common shares outstanding	3,985,202	2,963,589
Diluted weighted average common shares outstanding	4,281,527	3,293,487
BALANCE SHEET DATA:		
Average total assets	\$683,519	\$504,046
Average gross loans, net of deferred loan fees	486,183	346,732
Average interest-earning assets	615,317	455,466
Average deposits	586,552	442,780
Average interest-bearing deposits	505,758	388,033
Average interest-bearing liabilities	530,583	393,641
Average total shareholders' equity	70,330	53,690

2015

	Years Ended December 31,	
	2015	2014
SELECTED FINANCIAL RATIOS:		
Return on average assets	0.22%	0.36%
Return on average equity	2.15%	3.41%
Average equity to average total assets	10.29%	10.65%
Efficiency ratio	84.97%	82.79%
Net interest margin	4.07%	4.12%
Net interest spread	3.99%	4.04%
CAPITAL RATIOS:		
Tier 1 capital	9.45%	*
Tier 1 leverage ratio	10.30%	*
Tier 1 risk-based capital	11.78%	*
Total risk-based capital	12.32%	*
ASSET QUALITY RATIOS:		
Net charge-offs to average loans	0.09%	0.20%
Allowance to period end loans	0.60%	1.07%
Allowance for loan losses to non-performing loans	158.10%	76.57%
Non-performing assets to total assets	0.79%	1.88%
OTHER DATA:		
Branches	12	7
Loan production offices	3	1
Full-time equivalent employees	225	113

* In 2014 the Company was not subject to the regulatory capital reporting requirements.

Table Assumptions – SmartFinancial's efficiency ratio is calculated as non-interest expense divided by the sum of net interest income on a fully tax equivalent basis plus non-interest income excluding gains and losses on the sale of securities and real estate. Net interest margin is the result of net interest income calculated on a tax-equivalent basis divided by average interest earning assets for the period. Net interest spread is calculated as the yields realized on interest-bearing assets less the rates paid on interest-bearing liabilities.

SMARTBANK EXECUTIVE TEAM

SMARTBANK LOCAL LEADERSHIP



BOBBY CASTLE
Senior Vice President
Sevier County Executive



MIKE HONEYCUTT
Senior Vice President
Knoxville Area Market Executive



GAIL MICELI
Senior Vice President
Okaloosa County Market Leader



EMORY SINGLETARY
Senior Vice President
Panama City Market Leader



BARRY WATSON
Chattanooga Regional
President



JOHNNIE WRIGHT
Senior Vice President
Pensacola Market Leader



BILLY CARROLL
President and
Chief Executive Officer



JOHN COXWELL
Executive Vice President
Chief Operating Officer



STEFANIE CROWE
Executive Vice President
Chief Experience & Strategy Officer



GREG DAVIS
Executive Vice President
Chief Lending Officer



C. BRYAN JOHNSON
Executive Vice President
Chief Financial Officer



RHETT JORDAN
Executive Vice President
Chief Credit Officer



BILL LLOYD
Regional President of Florida
Residential Lending Executive



GARY PETTY
Executive Vice President
Chief Risk Officer



DIANE SHORT
Executive Vice President
Chief Human Resources Officer

INVESTOR RELATIONS

Investor Relations Contact

Frank Hughes
Executive Vice President
6413 Lee Hwy #107
Chattanooga, TN 37421
423.385.3009

SmartFinancial, Inc.

5401 Kingston Pike #600
Knoxville, TN 37919
866.290.2554

Stock Transfer Agent Info

American Stock Transfer
& Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
800.937.5449

Stock Symbol

Nasdaq Capital Market
"SMBK"

Market Makers

Citadel Securities, LLC
Hovde Group
Knight Capital Americas, L.P.
Raymond James & Associates, Inc.
Wedbush Securities Inc.

SmartFinancial, Inc. Annual Shareholders' Meeting

Thursday, May 19, 2016 at 6:00 p.m.
Sevierville Civic Center
130 Gary Wade Blvd.
Sevierville, TN 37862

Meeting contact: Jennifer Andrews at jandrews@smartbank.com

*A Shareholders' Reception will be held in Chattanooga, TN on May 25th,
from 5:30pm-7:00pm on the 7th floor of the Electric Power Board at
10 W M L King Blvd, Chattanooga, TN 37402*

Reception contact: Becky Grudzinski at bgrudzinski@smartbank.com

Electronic Voting

To vote electronically, please go to www.smartfinancialinc.com
You may also download a copy of the 2015 SmartFinancial, Inc. Annual Report.

Disclaimer

Please refer to the Form 10-K for any statements contained in this
Annual Report that may constitute forward-looking statements.

WWW.SMARTBANK.COM



SmartBank.
LOCATIONS

TENNESSEE

CHATTANOOGA (DOWNTOWN)

835 Georgia Avenue
Chattanooga, TN 37402

CHATTANOOGA (GUNBARREL)

2280 Gunbarrel Road
Chattanooga, TN 37421

EAST RIDGE

4154 Ringgold Road
East Ridge, TN 37412

GATLINBURG

570 East Parkway
Gatlinburg, TN 37738

HIXSON

5319 Highway 153
Hixson, TN 37343

KNOXVILLE (BEARDEN)

5401 Kingston Pike, #600
Knoxville, TN 37919

KNOXVILLE (CEDAR BLUFF)

202 Advantage Place
Knoxville, TN 37922

OLTEWAH

8966 Old Lee Highway
Ooltewah, TN 37363

PIGEON FORGE

2430 Teaster Lane
Pigeon Forge, TN 37863

SEVIERVILLE

1011 Parkway
Sevierville, TN 37862

FLORIDA

DESTIN

4405 Commons Drive East
Destin, FL 32541

PANAMA CITY

Loan Production Office
2411 Jenks Avenue
Panama City, FL 32405

PANAMA CITY

Mortgage Loan Production Office
243 Southwood Drive
Panama City, FL 32405

PENSACOLA

201 North Palafox Street
Pensacola, FL 32502

GEORGIA

DALTON

Loan Production Office
202 West Crawford Street
Dalton, GA 30720



CORE VALUES We never compromise integrity

▲ We are passionate; enthusiasm, energy & determination all describe the way we work within

our company ▲ We are not afraid to try new ideas

▲ We are accountable to each other, our clients & shareholders ▲ We deliver the exceptional -

creating *WOW* for our clients ▲ We embrace change

▲ We pursue breakthrough strategies

▲ We communicate in an open,

honest & respectful way



SmartFinancial, Inc.