

10 YEARS OF SMARTBANK

2016 ANNUAL REPORT



SmartFinancial, Inc.

10 YEARS

OF BUILDING EXCEPTIONAL VALUE

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 CONTINUE TO FUEL THE COMPANY'S EXPANSION AND PAVE THE WAY FOR FUTURE GROWTH OPPORTUNITIES.



SmartBank®

LETTER TO THE SHAREHOLDERS

OF SmartFinancial, Inc.

We are extremely proud of the achievements of our associates during our first full year as a combined company. Our team continues to **work hard** with **great energy**. The performance highlights along with the great emphasis we place on our **culture** and **branding** indicate that we are well on our way in creating what we believe will be one of the Southeast's next great community banking franchises.

Performance Highlights

- ▲ Outstanding loan growth of 11.77% or \$85.6 million
- ▲ Increased demand deposits by 12.58% or \$35.3 million
- ▲ Maintained a net interest margin of over 4.00% for the year
- ▲ Asset quality was outstanding with nonperforming assets to total assets of just 0.42%

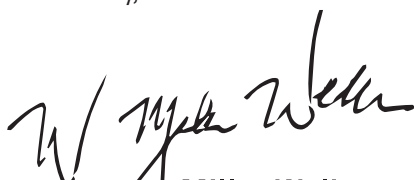
In 2016 we certainly grew our bank, increased our shareholder value and accomplished our strategic objectives!

In addition to the financial achievements of 2016, many exciting projects were successfully completed. Soon after the Cornerstone Community Bank merger finalized, we began the rebranding process in three of our newly acquired branches in the Chattanooga market. The Hixson, East Ridge and Gunbarrel branches underwent extensive remodeling projects introducing the SmartBank brand in each of these facilities. Our Chattanooga-Miller Plaza branch was outfitted with a brand new state-of-the art sign sure to be seen from all over the downtown area. The sign is just the beginning of the rebrand at Miller Plaza as we have plans in 2017 to renovate the interior of the branch bringing the same SmartBank look and feel as we've done in the other branches. Additionally, we will begin an extensive rebranding at our Knoxville-Bearden corporate headquarters and branch later this year adding more office space, as well as, relocating our bank branch to the lower-level facing Kingston Pike. This building will have a completely new look which is sure to gain exposure in the Bearden area.

2017 is already off to a great start with plans to expand into the Bradley County market with a branch acquisition in Cleveland, Tennessee. We have added a veteran team of bankers to lead this market, and our operations team is working diligently on the integration to onboard over 1,000 new clients with approximately \$28 million in loans and \$30 million in deposits to SmartBank. The Cleveland conversion is scheduled for mid-May. We recently converted our Panama City Loan Production Office to a full-service retail branch. We have plans to relocate this branch to a brand-new permanent facility later this year. We have built a great base of business over the last couple of years with our Panama City Loan Production Office, and this new branch will allow us better opportunities to serve this outstanding market.

We will continue to execute our objectives of growing the company while maintaining a strong margin, rigorous underwriting standards, and increasing efficiency. Every day we strive to achieve our goals of being **a great place to work, a great place to bank**, and making our company a **rewarding investment for 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 **SHAREHOLDERS**, **ASSOCIATES**, **CLIENTS**, and **COMMUNITIES** by delivering more than they think possible.

MISSION

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

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 **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've achieved this through the integrity and innovation of our associates and directors – it's **THE SMARTBANK WAY**.

SMARTFINANCIAL BOARD OF DIRECTORS

**MILLER
WELBORN**

Chairman



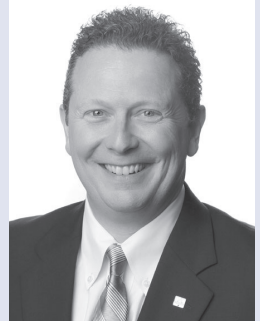
**BILL
CARROLL**

Vice-Chairman



**BILLY
CARROLL**

President & CEO



**VIC
BARRETT**

Co-founder & Partner
of The Track
Recreation Center



**MONIQUE
BERKE**

Vice President
of Business
Transformation at
CBL & Associates
Properties



**FRANK
MCDONALD**

President of
FMA Architects,
PLLC



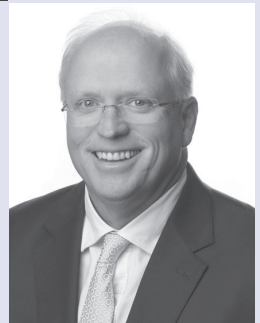
**TED
MILLER**

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

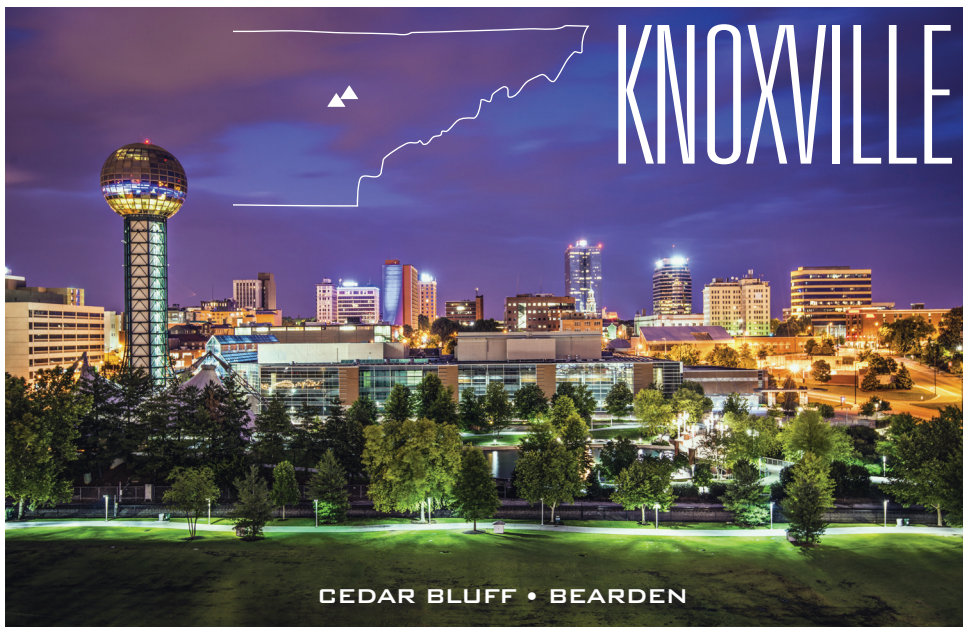


MARKETS

SEVIER COUNTY • KNOXVILLE • FLORIDA PANHANDLE • CHATTANOOGA • CLEVELAND



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.

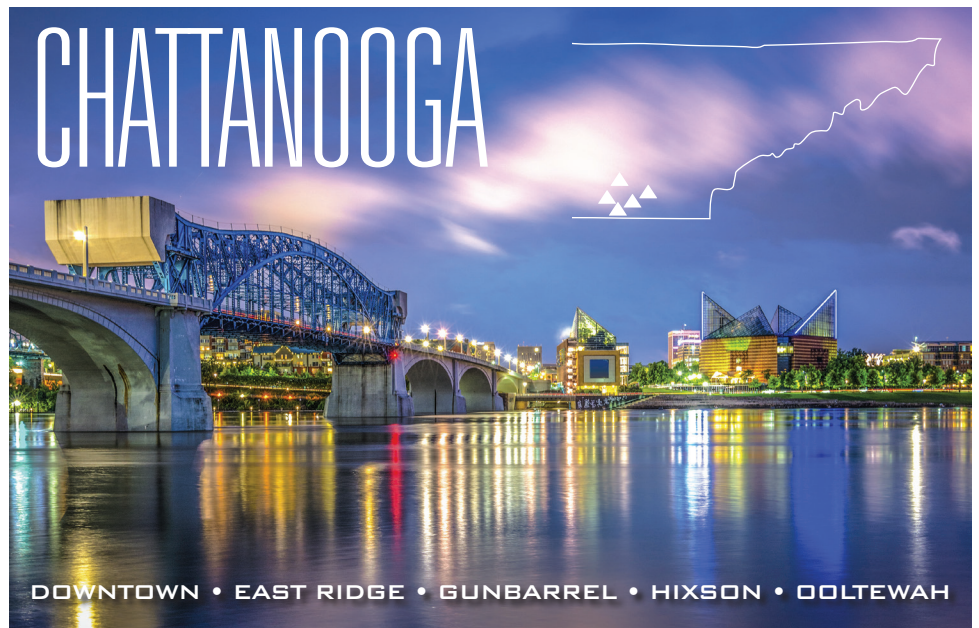


Knoxville's roots run deep and strong. The city has served as the hub of the region since its founding in 1791. The best of its Appalachian heritage remains today - a strong work ethic, a family-centered community, and an intense respect for the natural beauty that envelops the region.

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.



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. Major attractions and festivals bring thousands of visitors to the area annually.



In May 2017, SmartBank will expand into the Cleveland market. Cleveland is located just outside of Chattanooga, in Bradley County, and is a city with deep historical roots and a rich heritage. Cleveland and Bradley County boast a diverse workforce environment. Due to the close proximity to both Chattanooga and Knoxville, Cleveland is especially ideal for manufacturing. Additionally, Cleveland offers one of the most sought-after housing markets in the country.





SmartBank®

**10
YEARS**

EST. 2007



2016 | SmartBank successfully completed the merger and integration with Chattanooga-based Cornerstone Community Bank



2015 | SmartFinancial, Inc. announced trading on the Nasdaq Capital Market under the ticker symbol: SMBK



2014 | SmartFinancial, Inc., parent company of SmartBank, and Cornerstone Bancshares, Inc., parent company of Cornerstone Community Bank, jointly announced a definitive agreement to merge, creating a combined company that will operate under the name SmartFinancial, Inc.



2013 | SmartBank opened the Panama City, FL loan production office and relocated the Pensacola, FL branch. SmartBank also opened its newly designed and second location in Knoxville, TN



2012 | SmartBank acquired Destin-based GulfSouth Private Bank, adding branches in the Florida Panhandle



2011 | Assets grew to over \$325 million through organic growth



2010 | Formation of SmartFinancial, Inc. holding company



2009 | SmartBank expanded into the Knoxville market with its fourth branch



2008 | SmartBank opened its third branch in Gatlinburg, TN



2007 | SmartBank opened its corporate office in Pigeon Forge, TN and a second branch four months later in Sevierville, TN



2006 | Organization of SmartBank

THE SMARTBANK WAY

CORE VALUES

Act with integrity • Be enthusiastic • Create positivity • Demonstrate accountability • Embrace change

POSITIONING STATEMENT

We will achieve our desired position to be the Southeast's next great community bank by:

CREATING
"WOW"
EXPERIENCES

EXHIBITING
OVER-THE-TOP
ENTHUSIASM
AND POSITIVITY

DELIVERING
EXCEPTIONAL,
PROFESSIONAL &
KNOWLEDGEABLE
SERVICE

AT SMARTBANK, delivering UNPARALLELED VALUE to our Shareholders, Associates, Clients and the Communities we serve drives EVERY decision and action we take. EXCEPTIONAL VALUE means being there with SMART SOLUTIONS, FAST RESPONSES and DEEP COMMITMENT every single time. By doing this, we will create the Southeast's next, great community banking franchise.

CORE PURPOSE

We are driven to create "WOW" experiences that leave people saying,
"What a great place to bank!"

FINANCIAL SUMMARY



SmartFinancial, Inc.



SmartFinancial, Inc.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF SMARTFINANCIAL

The following selected historical consolidated financial data as of and for the years ended December 31, 2016 and 2015 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,	
	2016	2015
SUMMARY OF OPERATIONS		
Total interest income	\$ 42,564	\$ 27,753
Total interest expense	4,299	2,757
Net interest income	38,265	24,996
Provision for loan losses	788	923
Net interest income after provision for loan losses	37,477	24,073
Non-interest income	4,183	2,243
Non-interest expense	32,499	23,166
Income before income taxes	9,161	3,150
Income tax expense	3,362	1,640
Consolidated net income	5,799	1,510
Preferred stock dividend	1,022	120
Net income available to common stockholders	\$ 4,777	\$ 1,390
SHARE AND PER COMMON SHARE DATA:		
Basic earnings per share	\$ 0.82	\$ 0.35
Diluted earnings per share	0.78	0.32
Common equity per common share outstanding ¹	15.81	15.19
Tangible book value per common share	14.69	13.99
Dividends per common share	N/A	N/A
Preferred shares outstanding	12	12
Actual common shares outstanding	5,896	5,806
Weighted average common shares outstanding	5,839	3,985
Diluted weighted average common shares outstanding	6,119	4,282

Years Ended December 31,
2016 **2015**

BALANCE SHEET DATA:

Average total assets	\$1,012,232	\$ 683,519
Average gross loans, net of deferred loan fees	768,720	486,183
Average interest-earning assets	944,640	615,317
Average deposits	864,439	586,552
Average interest-bearing deposits	724,787	505,758
Average interest-bearing liabilities	763,567	530,583
Average total shareholders' equity	103,478	70,330

SELECTED FINANCIAL RATIOS:

Return on average assets	0.57%	0.22%
Return on average equity	5.59%	2.15%
Average equity to average total assets	10.22%	10.30%
Efficiency ratio ²	75.72%	85.00%
Net interest margin ³	4.06%	4.07%
Net interest spread	3.95%	3.99%

CAPITAL RATIOS:

Total Capital (to Risk-Weighted Assets)	11.99%	12.32%
Tier 1 Capital (to Risk-Weighted Assets)	11.42%	11.78%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	10.05%	10.30%
Tier 1 Capital (to Average Assets)	9.81%	9.45%

ASSET QUALITY RATIOS:

Net charge-offs to average loans	—%	(0.09)%
Allowance to period end loans	0.63%	0.60%
Allowance for loan losses to non-performing loans	241.49%	158.10%
Non-performing assets to total assets	0.42%	0.79%

OTHER DATA:

Branches	12	12
Loan production offices	3	3
Full-time equivalent employees	222	225

Non-GAAP Financial Measures

¹ Tangible common book value per common share is calculated by taking shareholders' equity; subtracting total preferred stock, preferred stock paid in capital, goodwill, and other intangible assets; and dividing the total by common shares outstanding.

² Efficiency ratio is calculated as non-interest expense excluding amortization of intangible assets, divided by the sum of net interest income on a fully tax equivalent basis plus non-interest income.

³ 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.

SMARTBANK EXECUTIVE TEAM



BILLY CARROLL
President and
Chief Executive Officer



GREG DAVIS
Executive Vice President
Chief Lending Officer



RHETT JORDAN
Executive Vice President
Chief Credit Officer



FRANK HUGHES
Executive Vice President
Investment & Institutional
Investor Relations



C. BRYAN JOHNSON
Executive Vice President
Chief Financial Officer



BILL LLOYD
Florida Regional
President
Residential Lending
Executive



GARY PETTY
Executive Vice President
Chief Risk Officer



DIANE SHORT
Executive Vice President
Chief Human Resources
Officer



BARRY WATSON
Chattanooga Regional
President

SMARTBANK LEADERSHIP TEAM



KELLEY FOWLER
Senior Vice President
Director of Marketing
and Public Relations



MIKE HONEYCUTT
Senior Vice President
Knoxville Area Market
Executive



MATT JENNE
Senior Vice President
Cleveland Market
Leader



GAIL MICELI
Senior Vice President
Okaloosa County
Market Leader



EMORY SINGLETARY
Senior Vice President
Panama City Market
Leader



JOHNNIE WRIGHT
Senior Vice President
Pensacola Market
Leader



BOBBY CASTLE
Senior Vice President
Sevier County Executive

BEVERLY ATCHLEY
Senior Vice President
Senior Deposit
Operations &
Administrative Officer

INVESTOR RELATIONS

Investor Relations Contact

Frank Hughes, Executive Vice President
6413 Lee Hwy #107
Chattanooga, TN 37421
423.385.3009
frank.hughes@smartbank.com

SmartFinancial, Inc.

5401 Kingston Pike #600
Knoxville, TN 37919
866.290.2554

Market Makers

Raymond James & Associates
Jones Trading
Credit Suisse
Hovde Group
Knight Capital Americas, L.P.
UBS AG

SmartFinancial, Inc. Annual Shareholders' Meeting

Thursday, May 18th at 6:30 pm
SmartBank - Cedar Bluff branch
202 Advantage Place • Knoxville, TN 37922
Meeting contact: Frank Hughes at frank.hughes@smartbank.com

Electronic Voting

To vote electronically, please go to www.smartfinancialinc.com
You may also download a copy of the 2016 SmartFinancial, Inc. Annual Report.

Forward-Looking Statements

This document may contain forward-looking statements about SmartFinancial which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, and cost savings anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by SmartFinancial and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and are not guarantees of future performance. We disclaim any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. The factors we discuss in our annual report on Form 10-K and other filings with the Securities and Exchange Commission, and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document.

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"

Analyst Coverage

Raymond James & Associates
Hovde Group



SmartBank[®]

LOCATIONS

TENNESSEE

CHATTANOOGA (DOWNTOWN)

835 Georgia Avenue
Chattanooga, TN 37402

CHATTANOOGA (GUNBARREL)

2280 Gunbarrel Road
Chattanooga, TN 37421

CLEVELAND

Opening May 22nd, 2017
3200 Keith Street NW
Cleveland, TN 37312

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

OOLTEWAH

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

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

WWW.SMARTBANK.COM





SmartFinancial, Inc.