

## Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

**Part I Reporting Issuer**

<b>1</b> Issuer's name		<b>2</b> Issuer's employer identification number (EIN)	
SMARTFINANCIAL, INC. AS SUCCESSOR TO CAPSTONE BANCSHARES, INC.		62-1173944	
<b>3</b> Name of contact for additional information	<b>4</b> Telephone No. of contact	<b>5</b> Email address of contact	
FRANK HUGHES	423-385-3009	FRANK.HUGHES@SMARTBANK.COM	
<b>6</b> Number and street (or P.O. box if mail is not delivered to street address) of contact		<b>7</b> City, town, or post office, state, and ZIP code of contact	
5401 KINGSTON PIKE SUITE 600		KNOXVILLE, TN 37919	
<b>8</b> Date of action		<b>9</b> Classification and description	
11/1/2017		COMMON STOCK	
<b>10</b> CUSIP number	<b>11</b> Serial number(s)	<b>12</b> Ticker symbol	<b>13</b> Account number(s)
83190L208	N/A	SMBK	N/A

**Part II Organizational Action** Attach additional statements if needed. See back of form for additional questions.

**14** Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ SMARTFINANCIAL, INC. ("SMBK") ACQUIRED CAPSTONE BANCSHARES, INC. ("CAPSTONE") THROUGH A MERGER TRANSACTION AND CAPSTONE SIMULTANEOUSLY MERGED WITH AND INTO SMBK EFFECTIVE NOVEMBER 1, 2017 ("MERGER EFFECTIVE TIME"). THE MERGER QUALIFIED AS A TAX-FREE REORGANIZATION UNDER SECTION 368 OF THE INTERNAL REVENUE CODE.

PURSUANT TO THE AGREEMENT AND PLAN OF MERGER, EACH SHARE OF CAPSTONE COMMON STOCK WAS EXCHANGED FOR 0.85 SHARES OF SMBK STOCK, \$18.50 CASH, OR A COMBINATION OF CASH AND STOCK. ELECTIONS WERE LIMITED BY THE REQUIREMENT THAT 80% OF THE TOTAL SHARES BE EXCHANGED FOR SMBK COMMON STOCK AND 20% BE EXCHANGED FOR CASH. CAPSTONE SHAREHOLDERS RECEIVED CASH IN LIEU OF FRACTIONAL SHARES BASED UPON THE PER SHARE PRICE OF \$23.49 FOR THE SMBK COMMON STOCK.

**15** Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ SEE ATTACHED STATEMENT

**16** Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ SEE ATTACHED STATEMENT

**Part II Organizational Action** (continued)

**17** List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ \_\_\_\_\_

[IRC SECTION 368\(A\)](#)

[IRC SECTION 354](#)

[IRC SECTION 356](#)

[IRC SECTION 358](#)

[IRC SECTION 1001](#)

[REGULATION SECTION 1.356-1](#)

**18** Can any resulting loss be recognized? ▶ [SEE ATTACHED STATEMENT](#)

**19** Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ [THE REPORTABLE TAX YEAR IS THE TAX YEAR INCLUDING NOVEMBER 1, 2017.](#)

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ▶ \_\_\_\_\_ Date ▶ \_\_\_\_\_

Print your name ▶ \_\_\_\_\_ Title ▶ \_\_\_\_\_

**Paid Preparer Use Only**

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
<a href="#">ROBERT A. PARKER, CPA</a>				<a href="#">P00868782</a>
Firm's name ▶ <a href="#">CROWE LLP</a>			Firm's EIN ▶	<a href="#">35-0921680</a>
Firm's address ▶ <a href="#">720 COOL SPRINGS BLVD, STE 600 FRANKLIN, TN 37067</a>			Phone no.	<a href="#">615-360-5500</a>

**Attachment to Form 8937**  
**Report of Organizational Actions Affecting Basis of Securities**  
**SmartFinancial, Inc.**  
**FEIN: 62-1173944**

**Part II, Line 15**

- Capstone shareholders receiving solely cash will experience no effect on basis of their Capstone common stock.
  - These holders should recognize gain or loss equal to the difference between the cash received and the tax basis in their Capstone shares surrendered.
- Capstone shareholders receiving solely SMBK stock will experience the following effects:
  - The aggregate basis in the Capstone shares immediately before the exchange should be allocated proportionately to the 0.85 (or fraction of 0.85) SMBK shares received in the exchange. The quantitative effect is  $1/0.85 = 1.1765$  of the basis in each whole Capstone share is allocated to each whole SMBK share. Generally, the tax basis is allocated to individual SMBK shares received on a block-by-block basis. Since a whole number of SMBK shares were not issued in exchange for each Capstone share, this could result in a single share of SMBK stock having a split basis and a split holding period.
  - Capstone shareholders who received cash instead of a fractional share of SMBK common stock will be treated as having received the fractional share in the merger and then as having exchanged the fractional share for cash. These holders will generally recognize gain or loss equal to the difference between the tax basis allocable to the fractional share and the amount of cash received.
- Capstone shareholders receiving SMBK stock and cash will experience the following effects:
  - Gain, but not loss, will be recognized equal to the lesser of: (a) the amount of cash received in the merger; or (b) the amount, if any, by which the sum of the cash received and the fair market value of the SMBK stock received exceeds the holder's adjusted tax basis in the Capstone shares exchanged in the merger. For this purpose, in computing the gain to be recognized on the exchange of Capstone common stock for SMBK common stock and cash, the amount of cash considered to be received in the merger does not include cash received in lieu of fractional shares. Gain or loss should be calculated separately for each identifiable block of shares surrendered in the merger, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares.
  - The aggregate tax basis of the SMBK shares received will equal the aggregate basis of Capstone shares exchanged (not counting the basis of any shares allocated to the receipt of fractional SMBK shares), reduced by cash received in the merger (not counting cash received for fractional shares), and increased by any gain recognized in the exchange (not counting any gain on fractional shares). Generally, the tax basis is allocated to individual SMBK shares received on a block-by-block basis. A pro rata portion of SMBK stock and cash should be treated as received for each Capstone share surrendered. Since a whole number of SMBK shares were not issued in exchange for each Capstone share, this could result in a single share of SMBK stock having a split basis and a split holding period.
  - Capstone shareholders who received cash instead of a fractional share of SMBK common stock will be treated as having received the fractional share in the merger and then as having exchanged the fractional share for cash. These holders will generally recognize gain or loss equal to the difference between the tax basis allocable to the fractional share and the amount of cash received.

**Part II, Line 16**

See item 15 above for a description of the calculation. The fair market value of SMBK common stock at the effective time of the merger was \$23.49 per share, based on the closing price as reported on October 31, 2017.

**Part II, Line 18**

No loss may be recognized by a Capstone shareholder receiving SMBK common stock or a combination of common stock and cash, except that any loss on the receipt of cash in lieu of fractional shares of SMBK stock may be recognized.

Capstone shareholders who receive only cash may recognize loss, if any. The deductibility of capital losses is subject to limitation.