

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 302(B)

IRC SECTION 318

IRC SECTION 354

IRC SECTION 356

IRC SECTION 358

IRC SECTION 1221

IRC SECTION 1441

SEE ALSO TREASURY REGULATION § 1.358-2(A) AND (C) AND PROPOSED TREASURY REGULATION §1.358-2(B)

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, 2018.

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.

Sign Here
Signature ▶ Felicia Barbee Date ▶ 12/10/18

Print your name ▶ Felicia Barbee Title ▶ Chief Accounting Officer

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	<u>ROBERT A. PARKER, CPA</u>		<u>11/28/2018</u>		<u>P00868782</u>
	Firm's name ▶ <u>CROWE LLP</u>	Firm's EIN ▶ <u>35-0921680</u>			
	Firm's address ▶ <u>720 COOL SPRINGS BLVD, STE 600 FRANKLIN, TN 37067</u>	Phone no. <u>615-360-5500</u>			

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

For purposes of this attachment, SMBK refers to the issuer, SmartFinancial, Inc.; and Foothills refers to Foothills Bancorp, Inc.

Part II, Line 15

Each Foothills common shareholder of record as of the Merger Effective Time became entitled to receive from SMBK 0.666 shares of SMBK common stock for each of their former shares of Foothills common stock subject to surrender of the old Foothills shares; plus a cash payment of \$1.75 per share; plus potentially a cash payment in lieu of the issuance of any fractional share of SMBK common stock.

The basis of SMBK shares received in the merger will be generally determined in accordance with IRC Section 358(a), as follows:

- The basis of Foothills shares surrendered
- Reduced by the cash received in the merger (if any)
- Increased by any gain recognized in the exchange, computed on a per share basis

The following information is necessary to compute gain to be recognized in the exchange on a per share basis as to each share of Foothills common stock that was held by a holder of record as of the Merger Effective Time:

- Cash consideration received per Foothills common share: \$1.75 per share
- Fair market value of SMBK shares received per Foothills common share: $\$20.34 \times 0.666 \text{ shares} = \13.55 per share
- Total consideration received per Foothills common share: $\$1.75 + \$13.55 = \$15.30 \text{ per share}$

To determine 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 the old basis, the following scenarios should be used to determine the per share gain to be recognized by a holder of record of a share of Foothills common stock as of the Merger Effective Time. Foothills shareholders should note that cash payments in lieu of fractional shares are expressly not considered in the scenarios describe:

- If the adjusted basis in an individual share of Foothills stock is greater than or equal to \$15.30, recognized gain should be \$0.
- If the adjusted basis in an individual share of Foothills stock is greater than \$13.55 but less than \$15.30, recognized gain should equal the excess of \$15.30 over the Foothills stock basis.
- If the adjusted basis in an individual share of Foothills stock is less than or equal to \$13.55, recognized gain should equal \$1.75.

Part II, Line 16

The fair market value of SMBK common stock at the effective time of the merger was \$20.34 per share, based on the closing price on October 31, 2018.

The basis of SMBK shares received, once computed as per above, must be allocated to the individual SMBK shares received in accordance with Treasury Regulation §1.358-2(a). See also Proposed Treasury Regulation §1.358-2(b). Since fewer shares of SMBK common stock were received than shares of Foothills common stock surrendered, the basis of the Foothills shares surrendered must be allocated to the shares of SMBK stock received in a manner that reflects, to the greatest extent possible, that a share of SMBK stock received is received in respect of Foothills shares of stock that were acquired on the same date and at the same price. To the extent it is not possible to allocate basis in this manner, the basis of the Foothills shares surrendered must be allocated to the shares of SMBK stock received in a manner that minimizes the disparity in the holding periods of the surrendered shares whose basis is allocated to any particular SMBK share received. This could result in a single share of SMBK stock having a split basis and a split holding period. See Example (14) of Treasury Regulation §1.358-2(c) for an illustration of this principle.

Part II, Line 18

No loss may be recognized by a Foothills shareholder receiving SMBK common stock, except that any loss on the receipt of cash in lieu of fractional shares of SMBK stock may be recognized. The deductibility of capital losses is subject to limitation.