

# SmartFinancial Inc. Announces Acquisition of Tennessee Bancshares, Inc.

December 12, 2017



**SmartFinancial, Inc.**

# Important Information

## Important Information for Investors and Shareholders

In connection with the proposed merger, SmartFinancial, Inc. ("**SmartFinancial**") will file a registration statement on Form S-4 with the Securities and Exchange Commission (the "**SEC**"), which will contain the proxy statement of Tennessee Bancshares, Inc. ("**Tennessee Bancshares**") and a prospectus of SmartFinancial. Shareholders of Tennessee Bancshares are encouraged to read the registration statement, including the proxy statement/prospectus that will be part of the registration statement, because it will contain important information about the merger, Tennessee Bancshares, and SmartFinancial. After the registration statement is filed with the SEC, the proxy statement/prospectus and other relevant documents will be mailed to all Tennessee Bancshares shareholders and will be available for free on the SEC's website ([www.sec.gov](http://www.sec.gov)). The proxy statement/prospectus will also be made available for free by contacting Billy Carroll at 865.868.0613. This presentation shall not constitute an offer to sell, the solicitation of an offer to sell, or the solicitation of an offer to buy any securities or the solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

SmartFinancial, Tennessee Bancshares, their directors and executive officers, and other members of management and employees may be considered participants in the solicitation of proxies in connection with the proposed transaction. Information about the directors and executive officers of SmartFinancial is set forth in SmartFinancial's proxy statement for its 2017 annual shareholders meeting. Other information regarding the participants in the proxy solicitations and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available.



# Important Information

## Forward Looking Statement Disclosure

Certain of the statements made in this presentation may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements, including statements regarding the intent, belief, or current expectations of SmartFinancial's management regarding the company's strategic direction, prospects, future results, and benefits of the merger, are subject to numerous risks and uncertainties. Such factors include, among others, (1) the risk that the cost savings and any revenue synergies from the merger may not be realized or take longer than anticipated to be realized, (2) disruption from the merger with customers, suppliers or employee relationships, (3) the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement, (4) the risk of successful integration of the two companies' businesses, (5) the failure of Tennessee Bancshares's shareholders to approve the merger, (6) the amount of the costs, fees, expenses and charges related to the merger, (7) the ability to obtain required governmental approvals of the proposed terms of the merger, (8) reputational risk and the reaction of the parties' customers to the merger, (9) the failure of the closing conditions to be satisfied, (10) the risk that the integration of Tennessee Bancshares's operations with SmartFinancial will be materially delayed or will be more costly or difficult than expected, (11) the possibility that the merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events, (12) the dilution caused by SmartFinancial's issuance of additional shares of its common stock in the merger and (13) general competitive, economic, politics of and market conditions. Additional factors which could affect the forward looking statements can be found in SmartFinancial's annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K filed with or furnished to the SEC and available on the SEC's website at <http://www.sec.gov>. SmartFinancial 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.



# Transaction Overview

Acquisition Overview  
Company Overview  
Transaction Rationale  
Transaction Terms  
Key Transaction Assumptions



# Acquisition Overview

- By closing, the combined company is expected to be approximately \$2B in total assets
- Accelerates the company towards a 1%+ ROAA target in 2019
- Positioned to add deposit market share in several Southeast growth markets, with additional nearby attractive markets remaining
- This transaction marks the management team's fifth consolidation, making the company one of the most experienced acquirers in its asset size range
- Strong step forward in the quest to become **"The Southeast's next great community banking franchise"**



# Company Overview

## Tennessee Bancshares, Inc.



Headquarters	Tullahoma, TN
CEO	William L. Yoder
Number of Directors	7

### Dollars in Thousands (Consolidated as of 9/30/17)

Total Assets	243,950
Net Loans	193,642
Total Deposits	210,107
Equity	22,919
Tangible Common Equity	21,348
Net Income, 2016	1,729
Net Income, YTD	1,889

### Percentages (Bank Level, Twelve Months Ended 9/30/17)

ROAA	0.94
ROAE	9.25
Net Interest Margin	3.88
Noninterest Income/Avg Assets	0.52
Efficiency Ratio	58.98
NPAs/Assets	0.59
TCE Ratio	10.36
Bank Leverage Ratio	9.93
Bank Total Risk-Based Capital	12.69

- Solid base in home Tullahoma market that has supported recent expansion into three growth markets (Chattanooga, Huntsville and Murfreesboro)
- Near 1% ROAA and solid credit quality = strong operator



# Transaction Rationale

## Strategic

- ✓ Attractive financial transaction with strong geographic fit
- ✓ Good mix of consolidation opportunities and growth market expansion
- ✓ Assists company in achievement of 1%+ ROAA run rate target

## Markets & Growth

- ✓ Extends footprint further into Tennessee and Alabama
- ✓ Improves market share position in Chattanooga
- ✓ Entry into the Nashville-Davidson-Murfreesboro-Franklin, TN and Huntsville, AL MSAs

## Financially Attractive

- ✓ 10% EPS accretion projected in 2019
- ✓ Less than 2.5 years to earn back TBV dilution (crossover method)
- ✓ Preservation of strong capital position and balance sheet

## Low Risk

- ✓ Key management of Tennessee Bancshares will remain with SMBK
- ✓ Conservative credit culture
- ✓ Complementary business lines that are easily integrated



# Transaction Terms<sup>(1)</sup>

Consideration	100% stock
Exchange Ratio	0.8065 fixed exchange ratio
Implied Announced Price per Share <sup>2</sup>	\$17.57
Aggregate Announced Transaction Value <sup>2</sup>	\$31.8 million
Board Representation	Clifton N. Miller (Tennessee Bancshares director) to be appointed to SMBK board
Management Retention	Tennessee Bancshares CEO and other key executives to maintain senior positions with SMBK
Termination Fee	\$1.3 million
Required Approvals	Tennessee Bancshares shareholders and customary regulatory approvals
Expected Closing	2 <sup>nd</sup> Quarter 2018
Estimated Transaction Multiples <sup>3</sup>	Price/LTM EPS: 13.8x Price/ TBVPS: 149.1% TBV Dilution Earn Back: < 2.5 Years (crossover method)

<sup>(1)</sup> Exclusive of contingent one-time, special dividend of up to \$0.70 per share (approximately \$1.27 million in the aggregate) to be paid to Tennessee Bancshares shareholders subject to the satisfaction of certain conditions

<sup>(2)</sup> Based on SMBK's stock price of \$21.79 as of 12/11/17

<sup>(3)</sup> Based on SMBK estimates of unaudited consolidated financials of Tennessee Bancshares as of 9/30/17

Sources: Definitive Agreement, SMBK





# Key Transaction Assumptions

## Expected Savings

- Cost savings target = 30% of seller's annual expense base
  - 50% realized in 2018
  - 100% realized thereafter

## Merger & Integration Costs

- Approximately \$2.3 million in pre-tax merger expenses
- 1.75% pre-tax opportunity cost of cash

## Pro Forma Capital

- Day 1 Total Equity of \$238 million
- 9.7% Day 1 TCE Ratio

## Purchase Accounting & Other Adjustments

- Total credit mark of \$9.0 million<sup>(1)</sup>
  - 20.0% on adjusted nonperforming loans
  - 4.3% on performing loans
  - 20.0% on OREO
- 1.15% mark on FHLB advances

<sup>(1)</sup> \$9.0mm credit mark may be lower if certain assets are disposed of prior to closing, with a dividend paid to Tennessee Bancshares shareholders (footnote on slide 8) that would be neutral to slightly positive to transaction metrics  
Sources: Definitive Agreement, SMBK



# Market Highlights

Chattanooga, TN  
Huntsville, AL  
Murfreesboro, TN  
Tullahoma, TN



# Chattanooga

## Market Highlights

- In 2011, Volkswagen Group of America opened an auto manufacturing plant in Chattanooga. The plant employs 3,200 and supports more than 9,500 indirect supplier employees
- In 2017, Volkswagen announced that it is spending \$600 million to expand its Chattanooga factory increasing their workforce by 4,500 employees
- McKee Foods Corp. plans to invest \$102 million in its manufacturing plant
- Whirlpool Corp. opened a new \$120 million plant in the Chattanooga area in 2012
- Chattanooga has a 10-gigabit network that is making it one of America's most tech start-up friendly cities, according to *Fortune*

## Major Employers



## Selected Data: Chattanooga, TN MSA

<b>Total Population:</b> <i>(Actual)</i>	552,944
<b>Proj. 5 Year Population Growth:</b>	3.81%
<b>Median HH Income:</b>	\$49,405
<b>Proj. HH 5 Year Income Growth:</b>	7.57%
<b>Total Market Deposits:</b> <i>(\$B)</i>	\$9.4
<b>Market YoY Deposit Growth:</b>	3.98%



# Huntsville

## Major Employers



## Market Highlights

- Huntsville is nicknamed “Rocket City” because of its long and significant role in the U.S. space and missile programs, with the city at the forefront in developing space technology
- Huntsville is one of the 40 fastest growing metropolitan areas in the United States
- Huntsville GDP growth is among the Top 10 major metropolitan areas in the country
- Huntsville GDP accounts for 25% of Alabama’s total GDP, and the 33,700 added new net jobs accounts for 88% of Alabama’s total growth

## Selected Data: Huntsville, AL MSA

<b>Total Population:</b> <i>(Actual)</i>	451,892
<b>Proj. 5 Year Population Growth:</b>	4.44%
<b>Median HH Income:</b>	\$59,376
<b>Proj. HH 5 Year Income Growth:</b>	4.34%
<b>Total Market Deposits:</b> <i>(\$B)</i>	\$7.5
<b>Market YoY Deposit Growth:</b>	7.80%



# Murfreesboro

## Market Highlights

- Top 10 fastest-growing large cities in the U.S. according to the U.S. Census Bureau, 2016
- Rutherford County is projected to be the second fastest growing county in TN and has the third lowest unemployment rate
- Nissan owns a six million square foot auto and battery manufacturing plant in nearby Smyrna, TN that employs 8,400
- Home to Middle Tennessee State University, one of the largest undergraduate universities in the state with approximately 23,000 students
- General Mills is investing \$250 million to expand its operations in Murfreesboro, creating 117 jobs in Rutherford county

## Major Employers



## Selected Data: Rutherford County

<b>Total Population:</b> <i>(Actual)</i>	310,750
<b>Proj. 5 Year Population Growth:</b>	9.01%
<b>Median HH Income:</b>	\$56,936
<b>Proj. HH 5 Year Income Growth:</b>	2.89%
<b>Total Market Deposits:</b> <i>(\$B)</i>	\$3.7
<b>Market YoY Deposit Growth:</b>	6.27%



# Tullahoma

## Market Highlights

- Tullahoma is a leader in the aerospace and technology industries and serves as a hub for medical and retail services
- Tullahoma is ranked as the #1 “Micropolitan” city in the state of TN
- Among the 20 Micropolitan Statistical Areas in TN, Tullahoma ties for the state’s second lowest unemployment rate
- Presence of Arnold Air Force Base, University of Tennessee’s Space Institute, and a variety of aerospace companies broadens Tullahoma’s employment base
- Located in close proximity to the Jack Daniel’s and George Dickel distilleries

## Major Employers



## Selected Data: Tullahoma-Manchester, TN MSA

<b>Total Population:</b> <i>(Actual)</i>	102,873
<b>Proj. 5 Year Population Growth:</b>	3.09%
<b>Median HH Income:</b>	\$44,044
<b>Proj. HH 5 Year Income Growth:</b>	7.47%
<b>Total Market Deposits:</b> <i>(\$B)</i>	\$1.5
<b>Market YoY Deposit Growth:</b>	4.23%

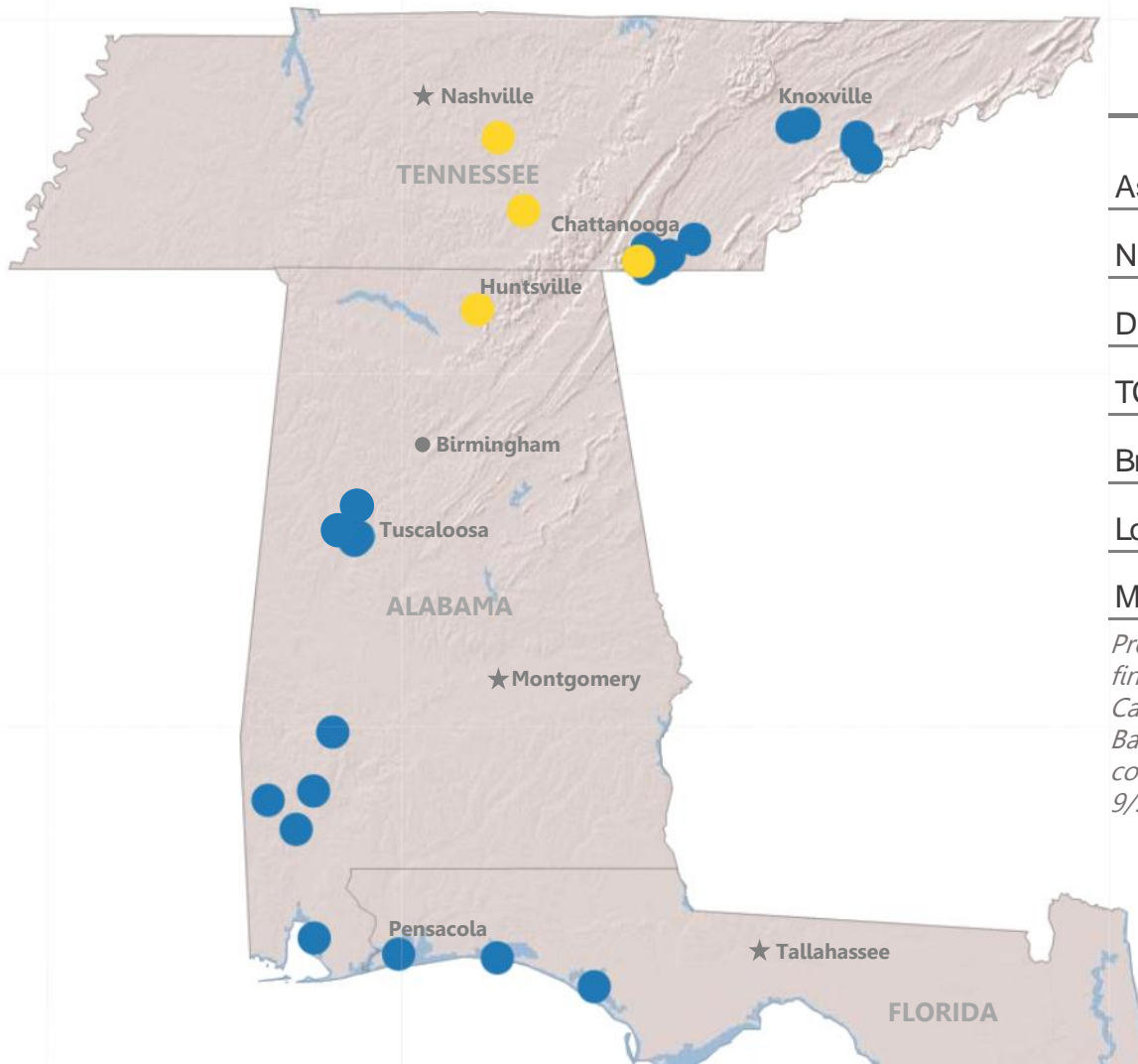


# Pro Forma Company

Pro Forma Footprint & Highlights  
Combined Leadership Team  
Pro Forma Loan Composition  
Pro Forma Deposit Composition



# Pro Forma Footprint and Highlights



## Pro Forma Highlights

Assets (\$mm)	1,891
Net Loans (\$mm)	1,479
Deposits (\$mm)	1,608
TCE (\$mm)	203
Branches	26
Loans/Deposits	92%
Market Cap (\$mm)	273.8

*Pro forma balance sheet based on unaudited consolidated financials of SmartFinancial as of 9/30/17, call report for Capstone Bank as of 9/30/17, FRY-9SP for Capstone Bancshares as of 6/30/17, and SMBK estimates of unaudited consolidated financials of Tennessee Bancshares as of 9/30/17. Numbers exclude purchase accounting adjustments*

- SMBK Branches (including Capstone)
- Tennessee Bancshares Branches



**SmartFinancial, Inc.**



# Combined Leadership Team

## Board of Directors

13 SMBK Directors

1 Tennessee Bancshares Director

## Executive Leadership

Billy Carroll  
*(Chief Executive Officer)*

Miller Welborn  
*(Chairman of the Board)*

C. Bryan Johnson  
*(Chief Financial Officer)*

Rhett Jordan  
*(Chief Credit Officer)*

Gary Petty  
*(Chief Risk Officer)*

Greg Davis  
*(Chief Lending Officer)*

Diane Short  
*(Chief HR Officer)*

Bill Yoder  
*(Chief Banking Officer)*

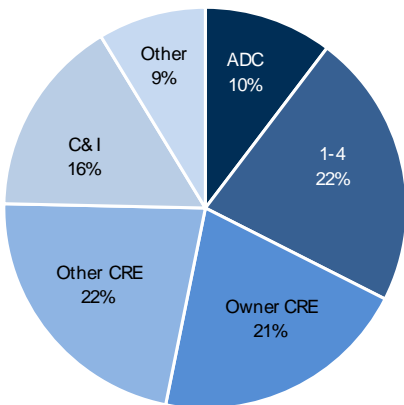


# Pro Forma Loan Composition

Dollars in Thousands (Bank Level)	SmartBank + Capstone Bank		Southern Community Bank		Combined	
-----------------------------------	---------------------------	--	-------------------------	--	----------	--

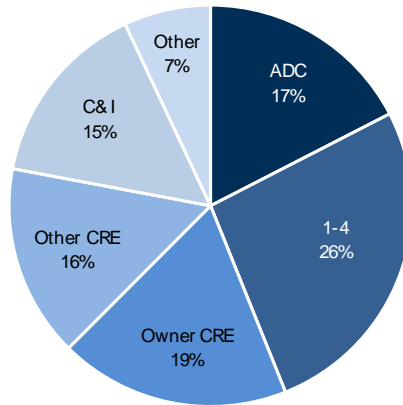
ADC	133,675	10.3%	34,118	17.4%	167,793	11.2%
1-4 Family	287,519	22.2%	51,911	26.5%	339,430	22.7%
Owner-Occupied CRE	268,042	20.7%	36,252	18.5%	304,294	20.4%
Other CRE	287,572	22.2%	30,377	15.5%	317,949	21.3%
Commercial & Industrial	207,263	16.0%	29,498	15.1%	236,761	15.9%
Other	112,450	8.7%	13,645	7.0%	126,095	8.4%
<b>Gross Loans</b>	<b>1,296,521</b>	<b>100.0%</b>	<b>195,801</b>	<b>100.0%</b>	<b>1,492,322</b>	<b>100.0%</b>

**SmartBank + Capstone Bank**



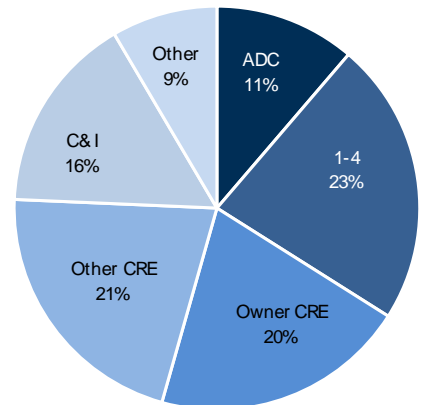
**Avg. Yield on Loans:**  
5.10%

**Southern Community Bank**



**Avg. Yield on Loans:**  
5.15%

**Combined**



**Avg. Yield on Loans:**  
5.11%



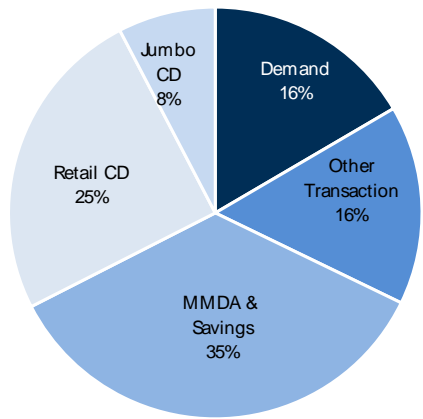
All data is bank level for the quarter ended September 30, 2017  
 SmartBank balances are pro forma for Capstone Bank acquisition  
 Numbers exclude purchase accounting adjustments  
 Source: S&P Global Market Intelligence

# Pro Forma Deposit Composition

Dollars in Thousands (Bank Level)	SmartBank + Capstone Bank		Southern Community Bank		Combined	
-----------------------------------	---------------------------	--	-------------------------	--	----------	--

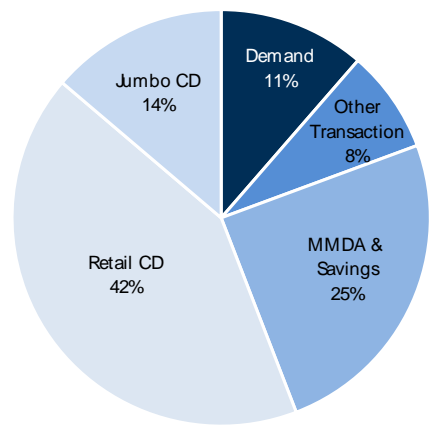
Demand Deposits	233,632	16.5%	23,865	11.4%	257,497	15.9%
NOW and Other Transaction	221,179	15.7%	16,789	8.0%	237,968	14.7%
MMDA & Savings	498,419	35.3%	52,118	24.8%	550,537	33.9%
Retail CDs	351,456	24.9%	88,446	42.1%	439,902	27.1%
Jumbo CDs	107,949	7.6%	28,889	13.7%	136,838	8.4%
<b>Total Deposits</b>	<b>1,412,635</b>	<b>100.0%</b>	<b>210,107</b>	<b>100.0%</b>	<b>1,622,742</b>	<b>100.0%</b>

**SmartBank + Capstone Bank**



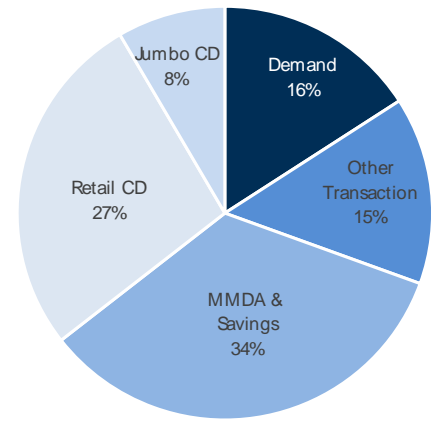
**Avg. Cost of Deposits:**  
0.59%

**Southern Community Bank**



**Avg. Cost of Deposits:**  
0.79%

**Combined**



**Avg. Cost of Deposits:**  
0.62%



All data is bank level for the quarter ended September 30, 2017  
 SmartBank balances are pro forma for Capstone Bank acquisition  
 Numbers exclude purchase accounting adjustments  
 Source: S&P Global Market Intelligence

# Appendix

Comprehensive Due Diligence Overview  
Investor Contacts



# Comprehensive Due Diligence Overview

- ▲ Broad due diligence process
- ▲ Thorough review of credit files, underwriting methodology, process and policy
- ▲ Reviewed 71% of the total dollar amount of Tennessee Bancshares loans outstanding (all loans > \$350,000)
- ▲ In-depth review of cost savings items
- ▲ Credit diligence resulted in a gross \$9 million credit mark



## Billy Carroll

President & CEO

865.868.0613

[billy.carroll@smartbank.com](mailto:billy.carroll@smartbank.com)

## Miller Welborn

Chairman

423.385.3067

[miller.welborn@smartbank.com](mailto:miller.welborn@smartbank.com)

SmartFinancial, Inc.  
5401 Kingston Pike, Suite 600  
Knoxville, TN 37919

