

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

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Date of Report (Date of earliest event reported): May 12, 2015

CORNERSTONE BANCSHARES, INC.  
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation)	000 - 30497 (Commission File Number)	62-1173944 (IRS Employer Identification No.)
835 Georgia Avenue, Chattanooga, Tennessee (Address of principal executive offices)		37402 (zip code)
	(423) 385-3000 (Registrant's telephone number, including area code)	
	Not Applicable (Former name or former address if changed since last report)	

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 7.01 Regulation FD.**

On May 12, 2015, representatives of Cornerstone Bancshares, Inc. (the “Company”) will begin making presentations to investors regarding the Company using the slides containing the information attached to this Current Report on Form 8-K as Exhibit 99.1 (the “Slides”). The Company expects to use the Slides, in whole or in part, and possibly with modifications, in connection with presentations to investors commencing on May 12, 2015.

By filing this Current Report on Form 8-K and furnishing the information contained herein, the Company makes no admission as to the materiality of any information in this report that is required to be disclosed solely by reason of Regulation FD.

The information contained in the Slides is summary information that is intended to be considered in the context of the Company’s Securities and Exchange Commission (“SEC”) filings and other public announcements that the Company may make, by press release or otherwise, from time to time. The Company undertakes no duty or obligation to publicly update or revise the information contained in this report, although it may do so from time to time as its management believes is warranted. Any such updating may be made through the filing of other reports or documents with the SEC, through press releases or through other public disclosure.

**Item 9.01 Financial Statements and Exhibits.**

## (d) Exhibits

99.1 Investor Presentation Slideshow in use beginning May 12, 2015.

**Important Information for Shareholders**

This communication shall not constitute an offer to sell, the solicitation of an offer to sell, 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. In connection with the proposed merger of Cornerstone Bancshares, Inc. and SmartFinancial, Inc., Cornerstone has filed a registration statement on Form S-4 with the Securities and Exchange Commission, which contains the joint proxy statement/prospectus of SmartFinancial and Cornerstone. Shareholders of Cornerstone and SmartFinancial are encouraged to read the registration statement, including the joint proxy statement/prospectus that will be part of the registration statement, because it contains important information about the merger, Cornerstone and SmartFinancial. The joint proxy statement/prospectus and other relevant documents will be mailed to all Cornerstone and SmartFinancial shareholders and will be available for free on the SEC’s website ([www.sec.gov](http://www.sec.gov)). The joint proxy statement/prospectus is also made available for free by contacting the President and CEO of SmartFinancial at (865) 868-0613 or the President and CEO of Cornerstone at (423) 385-3009. 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.

Cornerstone, SmartFinancial and their respective directors, executive officers, and certain other members of management and employees of Cornerstone and SmartFinancial may be deemed to be participants in the solicitation of proxies in connection with the proposed merger. Information concerning the interests of the persons who may be considered “participants” in the solicitation are set forth in the joint proxy statement/prospectus relating to the merger and the other relevant documents filed with the SEC. Information about the directors and executive officers of Cornerstone is also set forth in Cornerstone’s joint proxy statement/prospectus for its 2015 annual meeting of shareholders and its Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC.

### **Forward-Looking Statements**

Certain of the statements made in this report 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 Cornerstone, SmartFinancial and their respective management regarding the companies' strategic directions, prospects, future results and benefits of the merger, are subject to numerous risks and uncertainties. Certain factors may cause actual results to differ materially from those contained in the forward-looking statements, including economic and other conditions in the markets in which Cornerstone and SmartFinancial operate, governmental regulations, the ability to obtain regulatory and shareholder approval, the possibility that conditions to completion of the merger will not be satisfied, the ability to complete the merger in the expected timeframe, the companies' competitive environment, cyclical and seasonal fluctuations in their operating results, and other risks.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CORNERSTONE BANCSHARES, INC.  
(Registrant)

Date: May 12, 2015

By: /s/ Nathaniel F. Hughes  
Nathaniel F. Hughes  
President and Chief Executive Officer

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INVESTOR PRESENTATION  
MAY 2015

*FOR INSTITUTIONAL AND OTHER ACCREDITED INVESTORS ONLY*

## IMPORTANT DISCLOSURES

The information contained herein has been prepared solely for informational purposes. This document contains information (about investment opportunities that you have requested) which is not intended for or available to certain investors in certain jurisdictions. Moreover, such investment opportunities have not been registered with the Securities and Exchange Commission ("SEC"), and are only available to certain "accredited investors." This presentation does not constitute an offer or a solicitation of an offer to buy any security. Any offer or solicitation must be made only by means of a subscription or other definitive agreement provided by Cornerstone Bancshares, Inc. ("Company"). Prospective investors, including non-U.S. investors, should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the acquisition, holding or disposal of interests, and any foreign exchange restrictions that may be relevant thereto. Any decision to invest in securities should be made only after reviewing, conducting such investigations as the investor deems necessary and consulting the investors' own financial, legal, accounting, and tax advisors in order to make an independent determination of the suitability and consequences of participating in such investment.

This presentation contains certain forward looking statements and projections of financial performance. Such projections are, by nature, based on anticipating future events that cannot be predicted with accuracy and there is no assurance that the projections can or will be achieved. Actual results will be dependent upon a number of factors that are beyond the control of the Company. Accordingly, the projections should not be viewed as an estimate, prediction or representation as to future results and should not be relied on in making an investment decision. Actual results may differ substantially. The information contained in this document is for information purposes only and based solely on information and data supplied by the Company and other third party sources. The information contained herein is not a complete analysis of every material fact respecting the Company, its subsidiary bank, the investment opportunity, the industry, or any particular security. While the information contained in this document is based on sources believed to be reliable, neither the Company nor its representatives or advisors have independently verified the facts, assumptions, and estimates contained in this document. Accordingly, no representation or warranty, expressed or implied, is made to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. The opinions and estimates expressed herein reflect only the current judgment of the Company, which opinions and estimates are subject to change without notice. Investment results may vary substantially over time and from period to period based on many factors and an investor could lose its entire investment. Before you make an investment decision based upon the information provided herein, you should be aware that the occurrence or non-occurrence of any of the events or assumptions described in this document could materially and adversely affect the business and/or transactions and investments described herein. Past performance is not necessarily indicative of future performance. Nothing contained in this presentation is or shall be deemed to be, or construed as any advice or recommendation to the recipient or any third parties as to whether or not such parties should enter into any transaction(s), make any investment, or take any investment, accounting, or corporate action in connection therewith. The information herein is qualified in its entirety by the subscription or other definitive agreement, and the risk factors contained therein, which you should read carefully before making any investment decision.

**AN INVESTMENT IN THESE SECURITIES IS SPECULATIVE AND INCLUDES A HIGH DEGREE OF RISK. INVESTORS COULD LOSE THEIR ENTIRE INVESTMENT. SUCH INVESTMENTS ARE SUITABLE ONLY FOR PERSONS WHO ARE ABLE TO BEAR THE FINANCIAL RISKS ASSOCIATED WITH SUCH AN INVESTMENT. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THESE RISKS BEFORE INVESTING. HOVDE GROUP, LLC ("HOVDE") IS THE PLACEMENT AGENT TO THE COMPANY AND WILL RECEIVE COMPENSATION FROM THE COMPANY AS CONSIDERATION FOR SUCH SERVICES. HOVDE, AND/OR AFFILIATES OR PRINCIPALS OF HOVDE MAY ALSO HOLD POSITIONS IN AND/OR ENGAGE IN INVESTMENT BANKING OR OTHER INVESTMENT TRANSACTIONS WITH THE COMPANY. HOVDE IS A MEMBER OF FINRA/SIPC.**

## SAFE HARBOR STATEMENT

Certain statements made in this presentation may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this presentation, the words "may," "will," "should," "would," "anticipate," "expect," "plan," "believe," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include risks relating to ability to obtain regulatory approvals and meet other closing conditions of the merger; ability to complete the financing transaction and the amount raised; delay in closing the merger; difficulties and delays in integrating the merging businesses or fully realizing cost savings and other benefits; business disruption, including diversion of management time, following the merger and related transactions; inability to achieve the benefits expected from the merger; changes in businesses or prospects of Cornerstone or SmartFinancial before the merger is completed; economic conditions in the local markets where we operate; risk that the assumptions underlying projected results are incorrect; changes in interest rates; risks of default on and concentration of loans within our portfolio; the possible insufficiency of our allowance for loan losses; regional economic conditions; competition; governmental regulation and supervision; failure or circumvention of our internal controls; disruption of business or dilution of shareholder value as a result of mergers or acquisitions; our ability to retain key personnel; failure or disruption of our information systems; technological change; and other factors we describe from time to time in our periodic reports and in our Registration Statement on Form S-4 filed in connection with the merger. We undertake no obligation to revise or update these risks, uncertainties and other factors except as set forth in our periodic reports.

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FINANCIALS



*Cedar Bluff, Knoxville Branch*



# SmartFinancial, Inc.

## I. INVESTMENT OPPORTUNITY



Sevierville Branch

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*Note: Except as otherwise noted herein, the term "SmartFinancial, Inc." and the attendant investment opportunity contemplated by this presentation is intended to refer to the combined pro-forma company of Cornerstone Bancshares, Inc. and SmartFinancial, Inc., after giving effect to completion of the merger between such entities which was announced in December, 2014. For information on the announced merger between those parties, see pg. 8 of this presentation. Eleven other full-service branches and two loan production offices not pictured.*

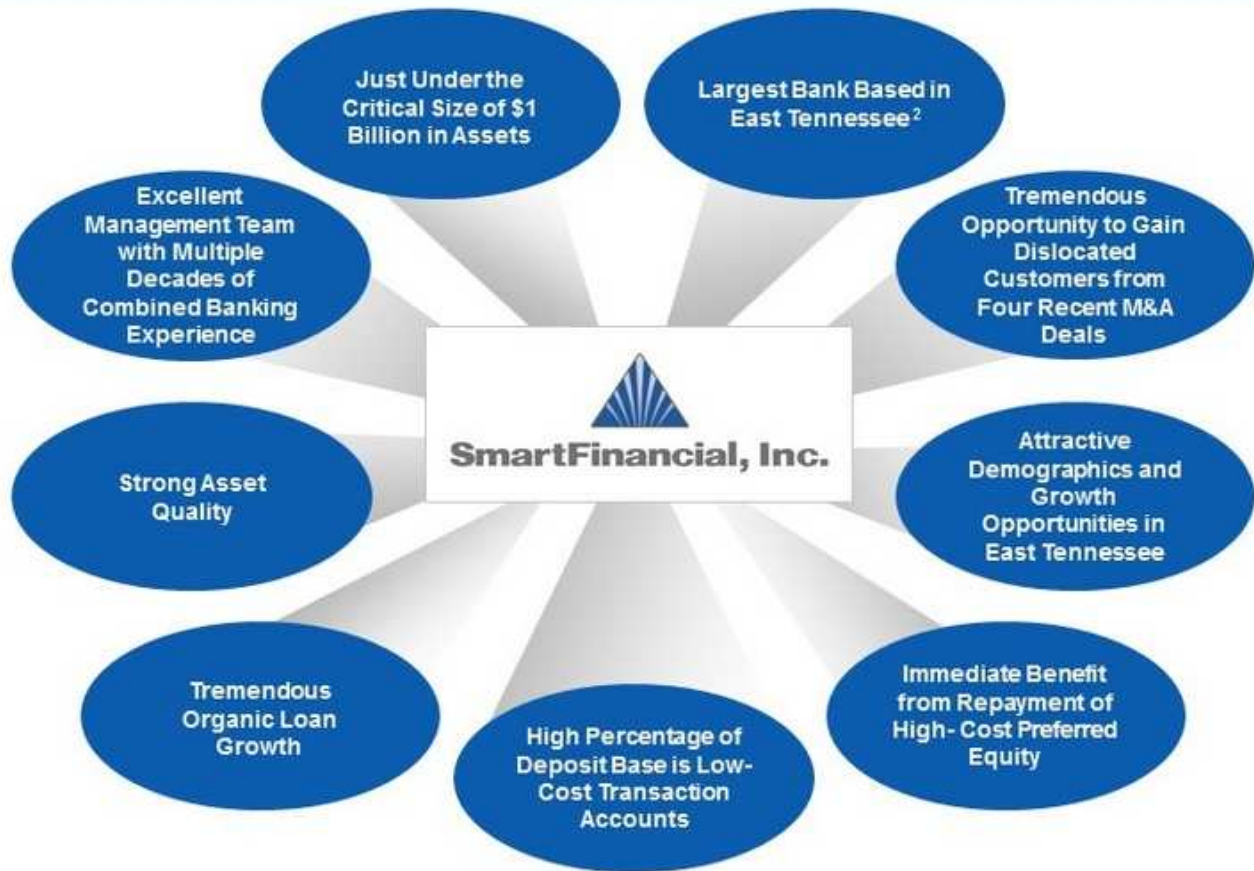
## INVESTMENT SUMMARY

Issuer:	Cornerstone Bancshares, Inc. (Ticker: CSBQ)
Summary of Offering:	Private placement of common stock to institutional and other accredited investors <sup>(1)</sup>
Offering Size:	Up to \$15,000,000
Offering Price:	\$3.75 to \$3.85
# of Shares Offered:	TBD
Use of Proceeds:	Primarily to redeem convertible preferred stock. <i>Proceeds of offering will be escrowed pending close of merger with SmartFinancial, Inc. (see slide 8), and escrow will only be broken if all conditions to closing the merger have been met, including but not limited to, shareholder approval and regulatory approval of merger obtained.</i>
Placement Agent:	Hovde Group, LLC
Expected Closing:	June-July 2015

<sup>(1)</sup> This offering is available only to "accredited investors" as defined in Regulation D under the Securities Act of 1933. Investors may be asked to provide third-party verification that they qualify as accredited investors.

Shares of Cornerstone common stock issued pursuant to the upcoming offering may not be resold except pursuant to an effective registration statement filed with the Securities and Exchange Commission or an exemption from the requirement to sell pursuant to an effective registration statement. Cornerstone intends to use its best efforts to make an effective registration statement available for resales within 90 days from the effective date of the merger. In the absence of an effective registration statement, resales would have to comply with the restrictions of Rule 144, which requires, among other restrictions, a holding period of at least six months.

# INVESTMENT HIGHLIGHTS OVERVIEW (1)



7 Note: Unless otherwise stated, data above is as of December 31, 2014  
Source: SM Financial, SmartFinancial, Inc. management, and Cornerstone Bancshares, Inc. management  
<sup>1</sup> Assumes the completion of the proposed merger of SmartFinancial, Inc. with and into Cornerstone Bancshares, Inc., which will be renamed "SmartFinancial, Inc."  
<sup>2</sup> Excludes thrift institutions and credit unions. Refer to slides 43 and 44 in Section IV: Banking Landscape.

## A TRANSFORMATIVE MERGER

- On December 5, 2014, SmartFinancial, Inc. (\$534 million in assets) and Cornerstone Bancshares, Inc. (\$416 million in assets) announced the proposed merger of their companies. Following the merger, the pro forma institution (the "Combined Company") will operate under the name "SmartFinancial, Inc.," and its headquarters will be relocated to Knoxville, Tennessee. The Combined Company will consist of 12 full-service branches (10 in Tennessee and 2 in Florida) and a loan production office ("LPO") in both Panama City, Florida and Dalton, Georgia. It will be the largest bank based in East Tennessee.<sup>1</sup>
- The merger agreement, which remains subject to shareholder and regulatory approval, provides that each outstanding share of SmartFinancial common stock will be converted into the right to receive 4.20 shares of Cornerstone common stock (the "exchange ratio"). The exchange ratio is subject to adjustment based on an anticipated reverse stock split of Cornerstone common stock at a 4-to-1 ratio.
- To enhance the Combined Company's capital position and facilitate regulatory approval of the merger, Cornerstone is commencing this private offering of its common stock to institutional and accredited investors. Cornerstone anticipates raising approximately \$15 million in connection with this private offering and the successful completion of this private offering is a condition to closing of the merger. Assuming Cornerstone issues 4,000,000 shares of common stock in the private offering, we expect that SmartFinancial legacy shareholders, as a group, will own approximately 56% of the outstanding shares of common stock of the Combined Company, Cornerstone legacy shareholders, as a group, will own approximately 28% of the outstanding shares of common stock of the Combined Company, and investors in this private offering will own approximately 16% of the outstanding stock of the Combined Company.

## A TRANSFORMATIVE MERGER

### Strategically Advantageous

- A natural geographic fit for two banks in East Tennessee
- Significant franchise value accretion as the Combined Company is on the verge of \$1 billion in assets
- Enhanced liquidity: the legacy Cornerstone is an SEC filing company and traded under the ticker CSBQ on the OTCQB; the Combined Company will be re-tickered and apply to be listed on NASDAQ in connection with the closing of the merger

### Financially Attractive

- Cornerstone's \$15 million of preferred equity (10% dividend) will be redeemed in connection with the closing of the merger
- One time merger related expenses estimated at approximately \$1.5 million pre-tax
- No data processing termination penalty

### Low Risk Profile

- Comprehensive due diligence process completed
- Thorough review of loan portfolio
- Legacy SmartFinancial management team has merger and acquisition experience from the GulfSouth Private Bank acquisition, which should ensure that the SmartFinancial-Cornerstone combination is integrated smoothly
- Strong pro forma capital ratios

# WHY INVEST IN THE COMBINED COMPANY?

## scarcity value

- With \$955 million in assets and 12 branches, the Combined Company will have an established and scalable platform from which to execute its strategic growth plans.
- When the recently announced sale of Chattanooga-based First Security Group closes, the Combined Company will be the 10<sup>th</sup> largest bank based in Tennessee and the *largest* bank based in East Tennessee (east of Nashville).<sup>1</sup>

## customer dislocation: organic growth opportunities

- Due to recently announced mergers in East Tennessee, many legacy customers will either not like the acquiring bank, or vice versa, and voluntarily leave the bank or involuntarily be forced to take their business elsewhere. This "customer dislocation" will provide a tremendous opportunity for the Combined Company:
  - Northwest Georgia Bank (sale announced May 2015);
  - CapitalMark Bank & Trust (sale announced April 2015);
  - First Security Group, Inc. (sale announced March 2015); and
  - Jefferson Bancshares, Inc. (sale announced January 2014).
- *This is a total of \$2.8 billion assets and \$2.3 billion in deposits whose customers could be looking for a new bank.*

## whole bank acquisitions: inorganic growth opportunities

- Opportunistic management team is ready to build upon the current franchise.
- Nearby smaller banks may seek a sale or merger as Dodd-Frank becomes implemented and scale becomes increasingly important.

## WHY INVEST IN THE COMBINED COMPANY?

### stable, low-cost core deposit base

- The legacy SmartFinancial had \$156 million of transaction accounts at the end of 2014, which reflects an increase of \$68 million, or **78%**, since the beginning of 2013, and \$117 million, or **298%**, since the beginning of 2011.
- The legacy SmartFinancial and Cornerstone have seen remarkable reductions in their deposit funding cost over the past few years.
  - SmartFinancial's cost of deposits has fallen from 1.44% for 2010Q4 to just 0.53% for 2014Q4.
  - Cornerstone's cost of deposits has fallen from 1.45% for 2010Q4 to just 0.52% for 2014Q4.

### elimination of high-cost capital

- Approximately \$15 million of Cornerstone preferred equity at a current dividend of 10% will be redeemed at the closing of the merger. The elimination of the preferred equity **will save the pro forma SmartFinancial approximately \$1.5 million per year after tax.**

## WHY INVEST IN THE COMBINED COMPANY?

### growing loan portfolio

- From the beginning of 2012 to the end of 2014, the legacy SmartFinancial has grown loans from \$234 million to \$363 million, reflecting a growth rate of **55%**. This increase of \$130 million includes \$48 million in 2014 alone.
- Over the same period, the legacy Cornerstone has grown loans from \$268 million to \$295 million. Note that the bank has been held back by its loan-to-deposit ratio, which stood at 96% as of the end of 2014.

### asset quality significantly improving

- Nonperforming assets (NPAs)-to-total assets ratio for both legacy companies was at a very low level at the end of 2014.
  - SmartFinancial's NPAs-to-assets ratio stood at 1.88% at the end of 2014;
  - Cornerstone's NPAs-to-assets ratio decreased from 7.14% at the end of 2012 to just 3.52% at the end of 2014 – a **51%** decrease in just two years.

## WHY INVEST IN THE COMBINED COMPANY?

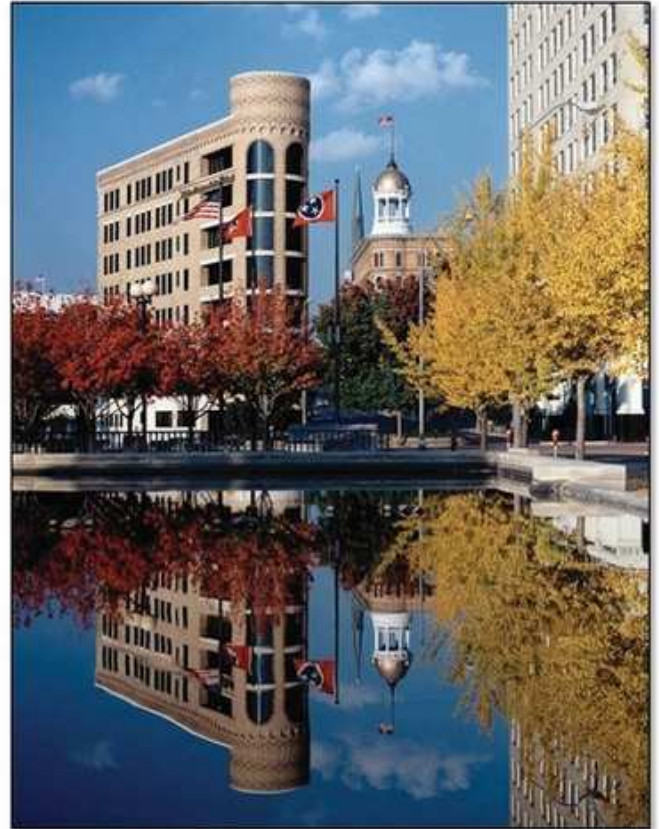
### projected performance highlights <sup>(1)</sup>

- Loan Growth
  - 8%, or \$60 million, in the first full year (2016);
  - 6%, or \$47 million, in the second full year (2017); and
  - 6%, or \$50 million, in the third full year (2018) of the Combined Company.
- Noninterest-bearing Deposit Growth
  - 18%, or \$22 million, in the first three full years (2016-2018) of the Combined Company.
- Net Interest Income Growth
  - 11%, or \$5 million, from 2016 through 2018 of the Combined Company.
- Noninterest Expense Growth
  - Rising only 3%, or \$1 million, from 2016 through 2018 of the Combined Company.
- Net Income Growth
  - To equity: 32%, or \$2 million, from 2016 through 2018 of the Combined Company; and
  - To common equity: 54%, or \$3 million, from 2016 through 2018 of the Combined Company.



# SmartFinancial, Inc.

## II. COMPANY OVERVIEW



*Downtown Chattanooga Branch*

# STAND-ALONE FINANCIAL OVERVIEW – SMARTFINANCIAL, INC.<sup>(1)</sup>

## SmartFinancial, Inc.

(\$ in thousands)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Quarter Ending			
						03/31/2014	06/30/2014	09/30/2014	12/31/2014
<b>Balance Sheet</b>									
Total Assets	\$303,912	\$328,071	\$464,439	\$507,702	\$533,714	\$495,791	\$502,431	\$531,942	\$533,714
Net Loans	\$233,661	\$230,014	\$308,825	\$310,943	\$359,523	\$326,686	\$342,327	\$350,944	\$359,523
Deposits	\$258,473	\$277,227	\$412,115	\$446,564	\$454,807	\$436,908	\$441,567	\$473,266	\$454,807
Loans/Deposits	90.40%	82.97%	74.94%	69.63%	79.05%	74.77%	77.53%	74.15%	79.05%
<b>Capital</b>									
Total Equity	\$31,548	\$45,863	\$52,325	\$52,830	\$55,888	\$53,434	\$53,603	\$55,166	\$55,888
Tangible Common Equity	\$31,548	\$33,863	\$40,325	\$40,830	\$43,888	\$41,434	\$41,603	\$43,166	\$43,888
Equity/Assets	10.38%	13.98%	11.27%	10.41%	10.47%	10.78%	10.67%	10.37%	10.47%
Tangible Equity/Tangible Assets	10.38%	13.98%	11.28%	10.41%	10.48%	10.79%	10.68%	10.38%	10.48%
Tier 1 Leverage	10.24%	13.48%	10.75%	10.67%	10.83%	10.88%	11.04%	10.54%	10.83%
Tier 1 Risk-Based Capital	12.96%	18.08%	15.90%	15.64%	13.83%	15.02%	14.33%	14.06%	13.83%
Total Risk-Based Capital	14.24%	19.33%	17.07%	16.86%	14.73%	16.18%	15.41%	15.06%	14.73%
<b>Profitability Measures</b>									
Net Interest Margin	3.28%	3.82%	3.71%	4.11%	4.11%	4.23%	3.86%	4.25%	4.09%
Non Interest Income/Average Assets	0.36%	0.18%	1.79%	0.36%	0.13%	0.22%	0.03%	0.23%	0.03%
Non Interest Expense/Average Assets	2.68%	2.74%	2.96%	3.10%	3.19%	3.07%	3.19%	3.21%	3.27%
Efficiency Ratio	78.13%	73.49%	56.83%	74.44%	82.51%	74.34%	88.86%	79.56%	87.00%
ROAA	0.40%	0.57%	1.84%	0.57%	0.36%	0.51%	0.11%	0.48%	0.35%
ROAE	3.94%	4.94%	14.52%	5.21%	3.41%	4.74%	0.94%	4.52%	3.22%
Pre-Tax Pre-Provision Net Rev. (\$000s)	\$2,197	\$3,038	\$8,010	\$4,984	\$3,266	\$1,250	\$432	\$1,018	\$668
Net Income (\$000s)	\$1,172	\$1,740	\$6,653	\$2,673	\$1,833	\$630	\$126	\$615	\$446
<b>Asset Quality</b>									
Nonperforming Assets/Assets	2.05%	2.06%	2.65%	1.18%	1.88%	1.84%	1.90%	1.83%	2.21%
Nonperforming Assets excl. TDRs/Assets	1.06%	0.77%	3.11%	1.18%	1.88%	1.71%	1.78%	1.69%	1.88%
NCOs/Avg Loans	0.22%	0.23%	0.33%	0.04%	0.20%	0.26%	0.32%	0.04%	0.46%
Reserves/Loans	1.52%	1.56%	1.19%	1.31%	1.07%	1.26%	1.18%	1.10%	1.00%
Reserves/NPAs	57.85%	54.16%	30.06%	62.12%	30.83%	45.61%	0.4279	40.03%	30.83%

# STAND-ALONE FINANCIAL OVERVIEW – CORNERSTONE BANCSHARES, INC. <sup>(1)</sup>

## Cornerstone Bancshares, Inc.

(\$ in thousands)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Quarter Ending			
						03/31/2014	06/30/2014	09/30/2014	12/31/2014
<b>Balance Sheet</b>									
Total Assets	\$441,499	\$422,655	\$443,446	\$432,223	\$415,740	\$429,043	\$419,894	\$413,353	\$415,740
Net Loans	\$285,247	\$267,765	\$276,992	\$289,440	\$295,364	\$292,952	\$292,369	\$298,390	\$295,364
Deposits	\$335,447	\$314,042	\$344,881	\$341,414	\$308,655	\$341,725	\$331,412	\$316,313	\$308,655
Loans/Deposits	85.03%	85.26%	80.32%	84.78%	95.69%	85.73%	88.22%	94.33%	95.69%
<b>Capital</b>									
Total Equity	\$25,819	\$35,208	\$40,889	\$40,134	\$40,662	\$40,696	\$40,369	\$40,396	\$40,662
Tangible Common Equity	\$23,092	\$25,309	\$26,067	\$25,241	\$25,698	\$25,785	\$25,440	\$25,450	\$25,698
Equity/Assets	5.85%	8.33%	9.22%	9.29%	9.78%	9.49%	9.61%	9.77%	9.78%
Tangible Equity/Tangible Assets	8.84%	8.33%	9.22%	9.28%	9.78%	9.49%	9.61%	9.77%	9.78%
Tier 1 Leverage	5.24%	7.56%	7.61%	7.49%	8.00%	7.71%	7.70%	7.90%	8.00%
Tier 1 Risk-Based Capital	8.05%	10.97%	10.58%	10.27%	10.51%	10.52%	10.47%	10.38%	10.51%
Total Risk-Based Capital	9.33%	12.24%	11.84%	11.31%	11.64%	11.49%	11.53%	11.48%	11.64%
<b>Profitability Measures</b>									
Net Interest Margin	3.43%	3.55%	3.85%	3.80%	3.90%	3.85%	3.88%	3.90%	3.97%
Non Interest Income/Average Assets	0.73%	0.27%	0.25%	0.45%	0.43%	0.30%	0.50%	0.48%	0.45%
Non Interest Expense/Average Assets	4.30%	3.17%	3.18%	3.23%	3.33%	3.10%	3.16%	3.52%	3.56%
Efficiency Ratio	94.51%	89.14%	84.54%	82.07%	81.55%	79.87%	76.86%	84.81%	84.66%
ROAA	-1.12%	0.24%	0.34%	0.39%	0.39%	0.39%	0.38%	0.39%	0.40%
ROAE	-15.79%	3.46%	3.78%	4.12%	4.04%	4.11%	4.05%	4.02%	4.06%
Pre-Tax Pre-Provision Net Rev. (\$000s)	\$1,048	\$1,663	\$2,409	\$3,024	\$3,167	\$665	\$660	\$1,012	\$831
Net Income (\$000s)	-\$4,708	\$1,030	\$1,402	\$1,681	\$1,638	\$412	\$410	\$405	\$411
<b>Asset Quality</b>									
Nonperforming Assets/Assets	6.20%	6.88%	7.14%	4.59%	3.52%	4.82%	4.68%	4.39%	3.52%
Nonperforming Assets excl. TDRs/Assets	5.99%	6.25%	5.94%	3.82%	2.61%	4.04%	3.77%	3.53%	2.61%
NCOs/Avg Loans	1.31%	0.80%	0.63%	1.16%	0.08%	0.12%	0.01%	-0.05%	-0.01%
Reserves/Loans	3.20%	2.76%	2.22%	1.11%	1.18%	1.03%	1.14%	1.16%	1.18%
Reserves/NPAs	33.34%	25.45%	19.40%	16.10%	23.89%	14.56%	16.96%	19.15%	23.89%

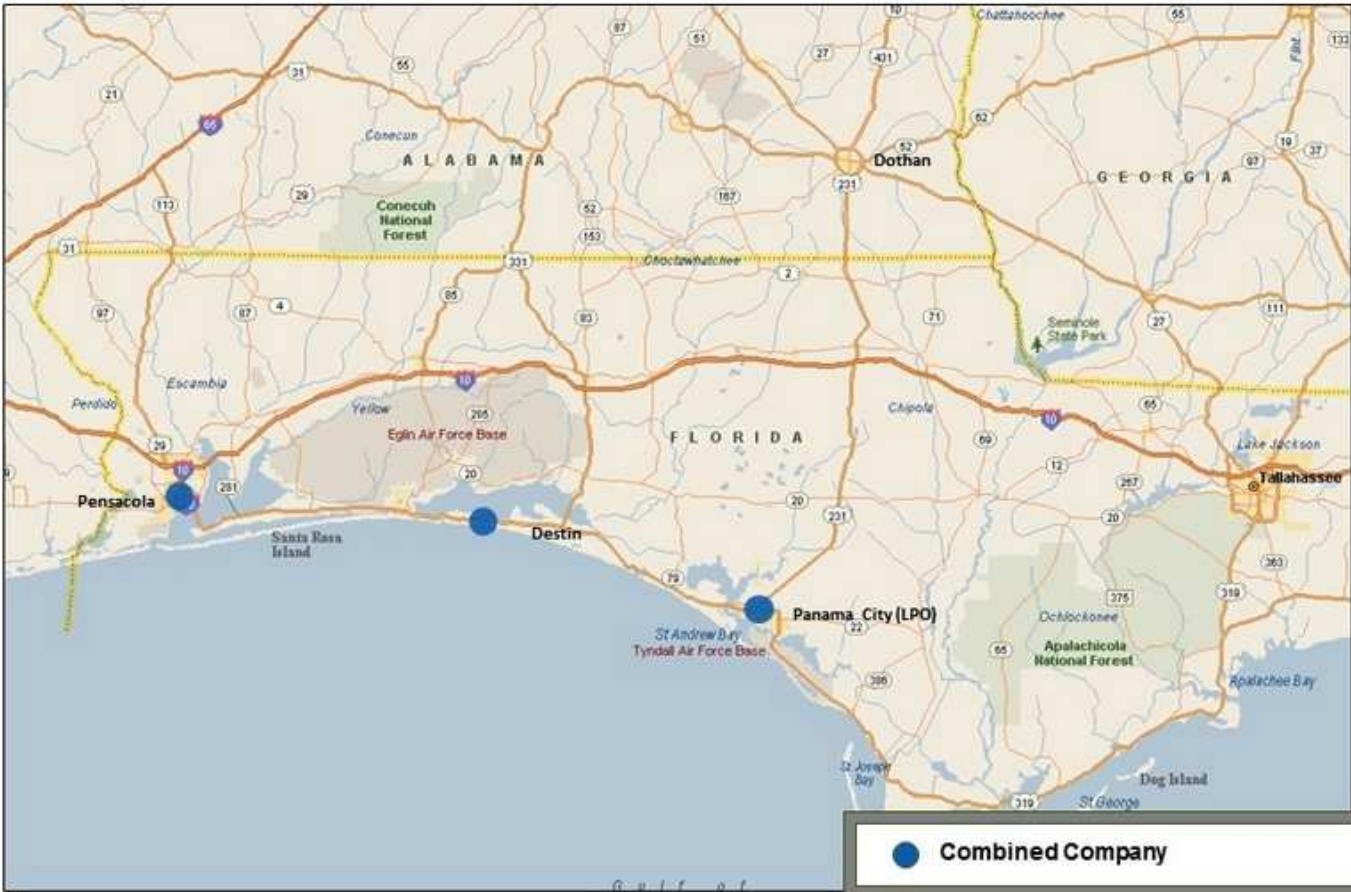
# BRANCH NETWORK – ENTIRE FRANCHISE



# BRANCH NETWORK – EAST TENNESSEE



# BRANCH NETWORK – FLORIDA PANHANDLE



SMARTBANK BRANCH PHOTOS –  
COUNTY, EAST TENNESSEE

SEVIER

gatlinburg branch



pigeon forge branch



sevierville branch



cedar bluff branch



montvue branch



**pensacola branch**



**destin branch**



**CORNERSTONE BANK BRANCH PHOTOS —  
CHATTANOOGA AREA, TENNESSEE**



CORNERSTONE BANK BRANCH PHOTOS —  
CHATTANOOGA AREA, TENNESSEE

ooltewah branch



gunbarrel  
road branch



## COMBINED COMPANY – KEY TEAM LEADERSHIP

	Post-Merger Titles	Age	Biography
William Y. Carroll, Jr.	President & CEO of the Combined Company and SmartBank	47	William ("Billy") Young Carroll, Jr. is the President and Chief Executive Officer of SmartBank and the President & Chief Executive Officer of SmartFinancial. Mr. Carroll also is a founding Director of SmartBank and SmartFinancial. A graduate of the University of Tennessee, he earned his bachelor's degree in Business Administration in 1990. Following graduation, Mr. Carroll worked for Kraft CPAs in Nashville, Tennessee, earning his Certified Public Accountant certification. He joined Citizens National Bank in 1992 where he held various management positions, including Executive Vice President and Chief Financial Officer. He also served on the Bank's board of directors as well as the Loan Committee and Asset Liability Committee. Mr. Carroll is active in the community and served as past President of the Sevier County High School Foundation; member of the Sevierville Planning Commission; President of the Sevier County's University of Tennessee Alumni chapter; and numerous other local organizations. Mr. Carroll currently serves on the Board of the Federal Reserve Bank, Nashville branch.
W. Miller Welborn	Chairman of the Combined Company and Cornerstone Bank	56	Chairman of the board of directors of Cornerstone and Cornerstone Community Bank since November 2009. Mr. Welborn is a Partner with the Lamp Post Group, a Chattanooga based small business incubator. Mr. Welborn also has served as President of Welborn & Associates, Inc., a Chattanooga based consulting firm specializing in transportation logistics, for more than ten years. He has been a director of Cornerstone since September 2005. Mr. Welborn has served on the boards of numerous trucking companies and associations. In addition, he served on the board of a publicly traded bank for many years and for two terms as a director of the Federal Reserve Bank of Atlanta's Birmingham Branch. He also serves on the boards of several non-profit organizations.
C. Bryan Johnson	Executive Vice President and Chief Financial Officer of the Combined Company and SmartBank	46	Mr. Johnson has served as Executive Vice President and Chief Financial Officer of SmartBank since 2011 and previously served as its Vice President and Controller since 2010. Mr. Johnson is a 1991 graduate of the United States Military Academy at West Point with a Bachelor of Science in Economics, Mathematical. After college, he attended Officer Basic Training and Airborne School before serving as an Artillery Officer with the First Armored Division in Europe. Following a deployment to Bosnia as the Battalion Intelligence officer, Mr. Johnson left the Army as a Captain. In 2000 Mr. Johnson received his J.D. and MBA in Finance from the University of Tennessee. Mr. Johnson has held the Chartered Financial Analyst Designation since 2000. Following graduate school, he joined Moon Capital Management, a registered investment advisor where he was primarily responsible for public company research. In addition, from 2002 to 2009 he taught senior level finance classes and a graduate accounting class at the University of Tennessee as an adjunct professor. He is a member of the CFA Society of East Tennessee and a member of the West Point Society of East Tennessee.
John H. Coxwell, Sr.	Executive Vice President and Chief Operating Officer of the Combined Company and Cornerstone Bank	64	Senior Executive Vice President of Cornerstone Community Bank since 2012. Prior to joining Cornerstone, Mr. Coxwell had a thirty-plus year career as a Certified Public Accountant (CPA) and financial institution specialist. His CPA experience includes managerial positions with Deloitte & Touche and, most recently, thirteen years as Managing Partner of Hazlett, Lewis & Bieter, PLLC. Originally from Waynesboro, MS, he is a graduate of Auburn University. His civic involvement includes board positions with the Chattanooga Symphony & Opera and READ Chattanooga (now Re:Start — the Center for Adult Education) where he also served as Board President. He is a former member of the Kiwanis Club of Chattanooga and the Chattanooga Downtown Rotary Club.



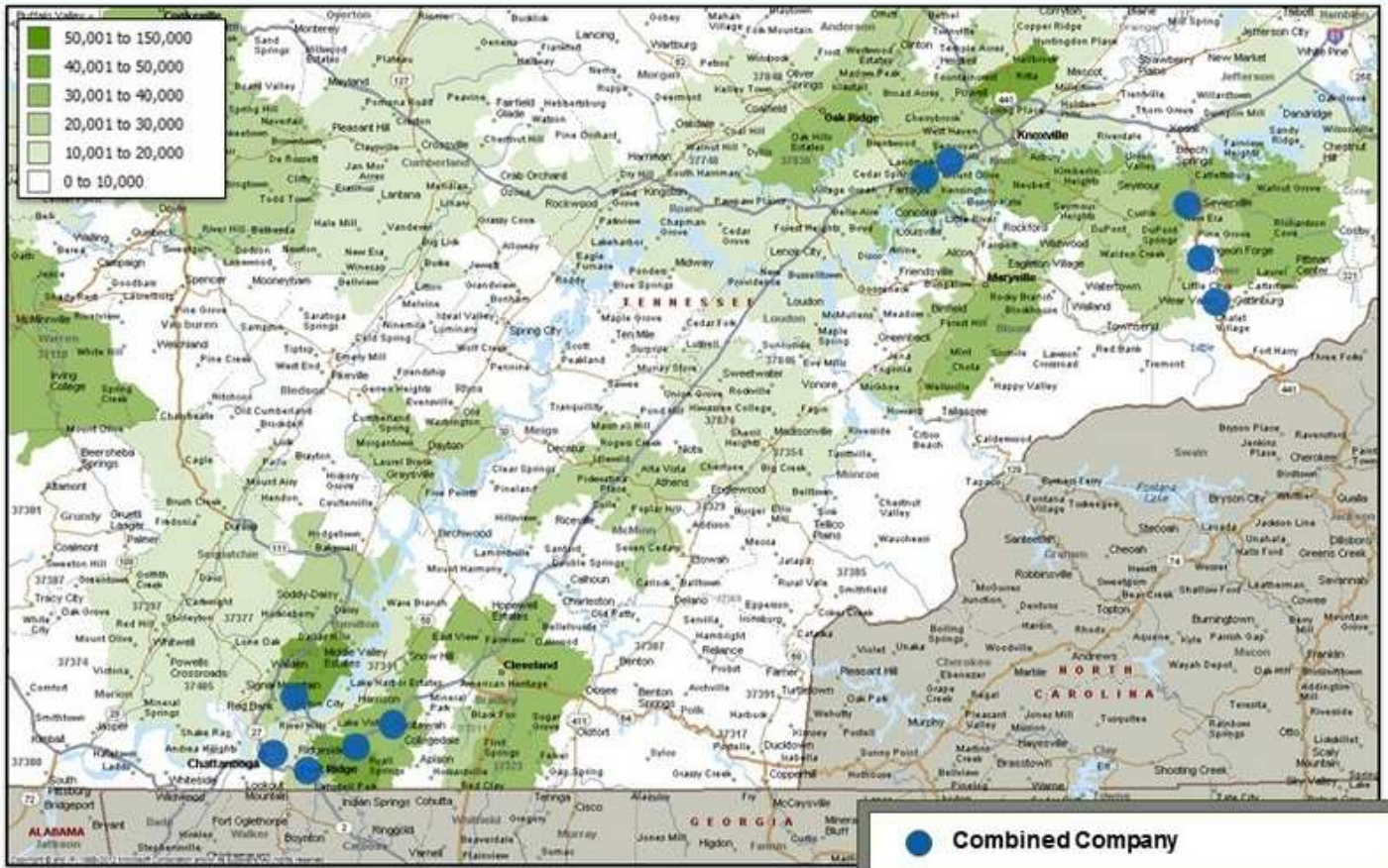
# SmartFinancial, Inc.

## III. MARKET LANDSCAPE



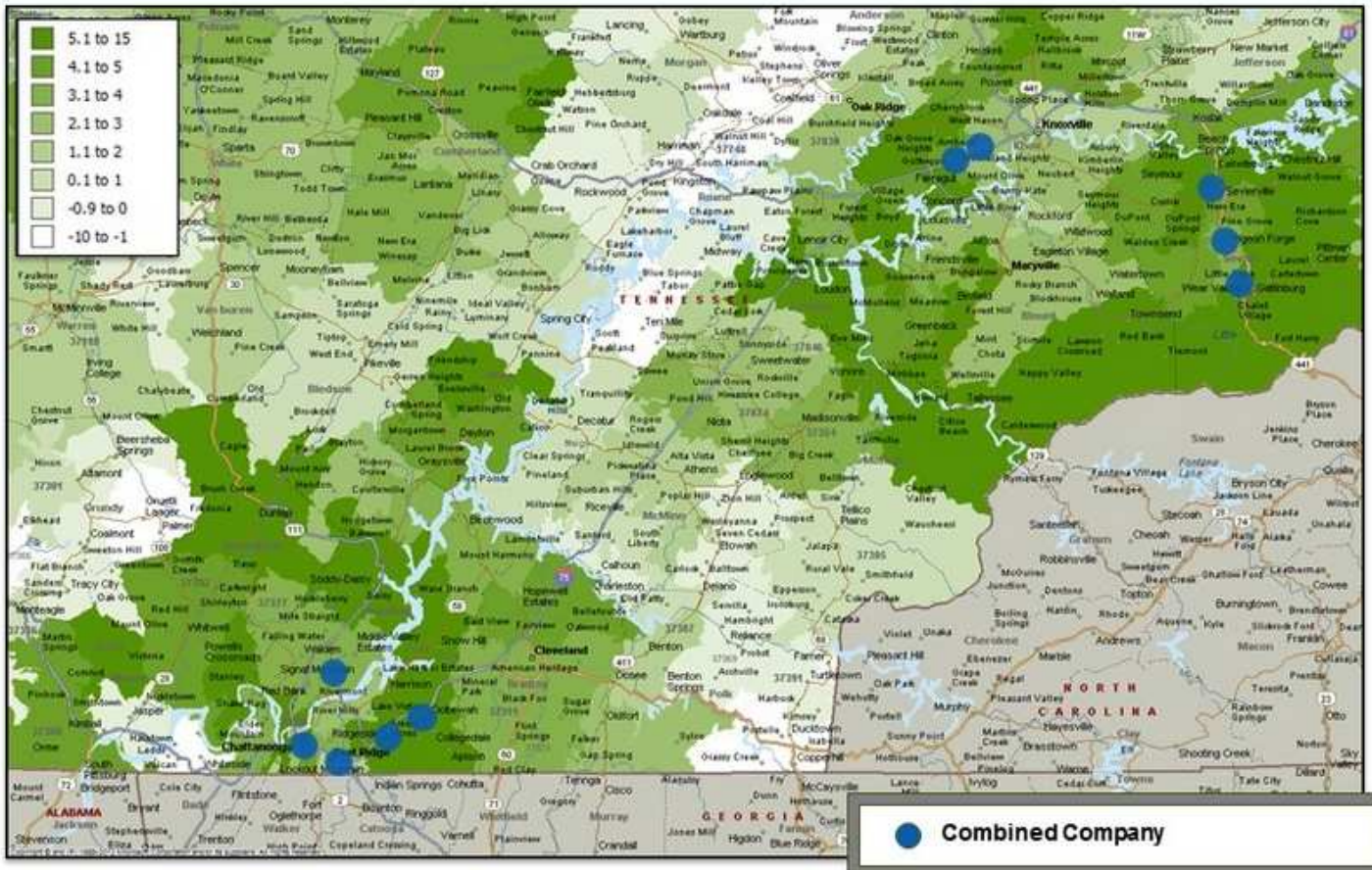
*Gunbarrel Road Branch, Chattanooga*

# 2015 TOTAL POPULATION BY ZIP CODE – EAST TENNESSEE



# 2015-2020 PROJECTED POPULATION CHANGE (%) – EAST TENNESSEE

# BY ZIP CODE



# 2015 TOTAL POPULATION BY ZIP CODE – FLORIDA PANHANDLE



# 2015-2020 PROJECTED POPULATION CHANGE CODE (%) – FLORIDA PANHANDLE

BY ZIP



## TENNESSEE – STATE OF THE YEAR

Business Facilities magazine has announced an unprecedented result for its top annual award in 2014: Tennessee has become the magazine's first back-to-back *State of the Year* winner. Tennessee, which previously won the top award in 2009 and 2013.

"We thought it would be hard for the Volunteer State to match last year's performance, but the folks in Tennessee keep reeling in one mega-project after another," said BF Editor in Chief Jack Rogers. "Most impressive, Tennessee seemed to pick up momentum as it went along."

TN's top five projects in 2014 netted nearly 8,000 new jobs, including the hotly contested Volkswagen expansion and a new Under Armour distribution center. In the last two months of 2014, the state added to this tally with three major announcements: Bridgestone's headquarters relocation, a 3M manufacturing facility and a Target fulfillment center.

"Tennessee is one of a handful of states that has clearly made economic development priority no. 1," Rogers said. "With a **powerhouse automotive cluster, world-class infrastructure and the nation's most improved education system**, we could be looking at a State of the Year dynasty in the making."

Tennessee also has been the top state for Automotive Manufacturing Strength for four of the past five years. In 2014, the state fended off a challenge from competing locations including Mexico to secure a major expansion of Volkswagen's automotive assembly facility in Chattanooga.

Tennessee's burgeoning automotive sector includes nearly 1,000 companies, employs more than 115,000 workers and has an economic impact of more than \$35 billion.



## CHATTANOOGA



Chattanooga, the fourth largest city in the state, is located in Southeast Tennessee on 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. The city and county have developed an extensive greenway system which includes five miles of constructed riverwalk beginning downtown and meandering through the historic art district and several parks.

Attractions such as the Tennessee Aquarium, Lookout Mountain, Civil War battlefield sites, the Creative Discovery Museum for children, the African American Museum, and the Appalachian Trail bring thousands of people to the area, as do events like the Riverbend Festival, Bessie Smith Strut, Fall Color Cruise, the Southern Writers Conference, and the national softball championships. People who love the outdoors use Chattanooga as a base for hang gliding, bass fishing, mountain climbing and caving expeditions; the verdant Smoky Mountains and Tennessee River watershed support the greatest variety of flora of any area in the United States.

With its scenic beauty, stable population and economy, civic vitality and cross-sector partnerships, fiscal integrity, and strategic location, Chattanooga is one of the most progressive and livable mid-size cities in the U.S. In this decade, **The city has won three national awards for outstanding "livability" and nine Gunther Blue Ribbon Awards for excellence in housing and consolidated planning.**

## RECENT SNL NEWS ARTICLE HIGHLIGHTS CHATTANOOGA

### Chattanooga's economic strength brings bank buyers to the market

Thursday, April 16, 2015

Tennessee's healthy and growing economy is attractive to banks, and the Chattanooga MSA in particular has garnered increasing attention from both in-state and cross-border institutions. "I think a lot of people see opportunity here," Colin Barrett, president of the Tennessee Bankers Association, said of the state in general and Chattanooga in particular. "There's a lot of excitement and energy around Chattanooga."

And that buzz has resulted in several recent M&A deals in the region. The most recent deal in the market was Nashville, Tenn.-based Pinnacle Financial Partners Inc.'s pending acquisition of CapitalMark Bank & Trust. Prior to that, Atlantic Capital Bancshares Inc. announced plans to buy Chattanooga, Tenn.-based First Security Group Inc., and in December 2014, SmartFinancial, Inc. and Chattanooga, Tenn.-based Cornerstone Bancshares Inc. agreed to combine. Barrett told SNL those deals speak to the strength of Tennessee's economy and in particular that of the greater Chattanooga area.

"Banks looking to acquire see a lot of potential in the market. And overall, we have seen a good amount of M&A activity throughout the state involving about 15 banks in the past year or so," he said.

John Barker, president and CEO of Dunlap, Tenn.-based Sequatchie Valley Bancshares Inc. unit Citizens Tri-County Bank told SNL that Chattanooga has a "very stable" economy that he labeled as "better than most markets." He said that is due in part to the presence of Amazon and Volkswagen.

Online retailer Amazon in March announced it was trying to fill more than 400 full-time positions at its fulfillment center in Chattanooga. The Chattanooga distribution center employs about 2,500 full-time workers. Volkswagen in 2011 opened its only U.S. factory in Chattanooga to make the Passat and announced plans in 2014 for a \$600 million addition to also build a sports utility vehicle. Volkswagen expects to employ more than 4,000 employees in Chattanooga once the addition is complete.

Additionally, German chemical company Wacker is building a \$2.4 billion polysilicon plant in nearby Charleston. It is expected to be functional in the second half of the year and will employ up to 650 workers by early 2016, according to a March 15 report in the *Chattanooga Times Free Press*. The plant is the largest private construction project underway in Tennessee and one of the biggest in the Southeast, according to the report.

# MARKET HIGHLIGHTS: CHATTANOOGA

## CHATTANOOGA MARKET OVERVIEW

- The Chattanooga MSA has a population of 547,815, ranking it the fourth largest in the State of Tennessee.
- The city boasts two colleges: University of Tennessee at Chattanooga and Chattanooga State Community College.
- Chattanooga has three hospitals, including Erlanger Health System, Parkridge Hospital System, and Memorial Hospital System.
- The Chattanooga MSA is the fourth fastest growing MSA in Tennessee, a result of the addition of major employers in the past five years (Amazon, Alstom, Volkswagen).
- Abundance of technology start-ups due to the city's fiber-optic telecom service, which offers the first citywide gigabyte-per-second internet speeds:
  - "Gig-City" has created over a thousand jobs with the new high-speed bandwidth provided at a low cost.
  - Companies that use massive amounts of bandwidth are relocating to Chattanooga to crunch data at a faster pace.
  - Former factory buildings on Main Street have been converted to loft apartments, open-space offices, restaurants and shops. The city has welcomed a new population of computer programmers, entrepreneurs and investors.
- Chattanooga will soon be home to a new \$62 million distribution center and regional headquarters for Coca-Cola.

## COMPANIES WITH PRESENCE IN CHATTANOOGA



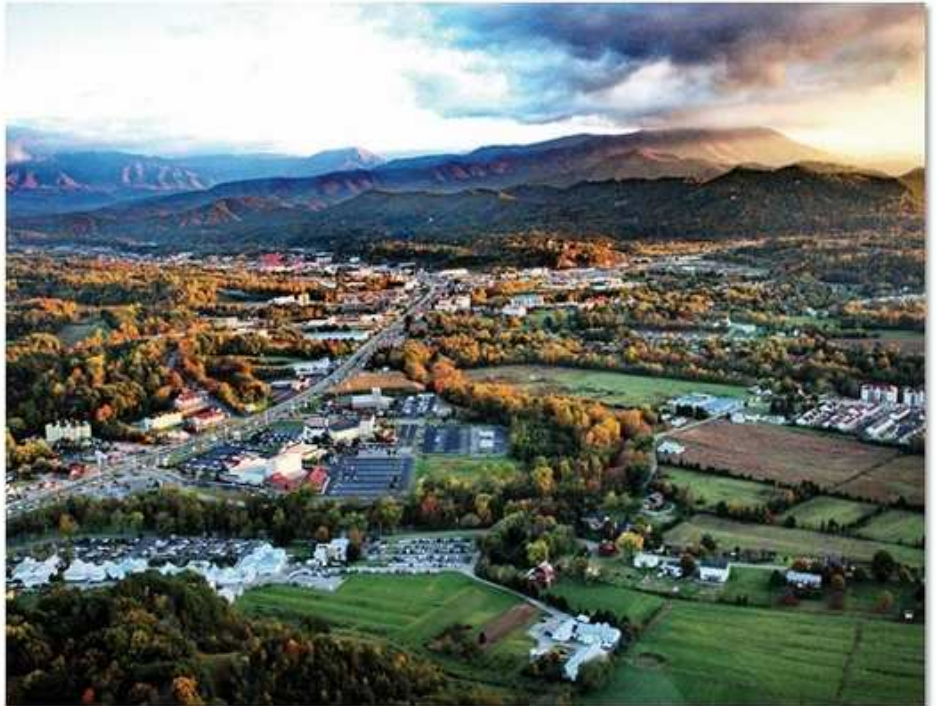
## SEVIERVILLE, PIGEON FORGE, GATLINBURG

Sevier County, Tennessee is known as the "Gateway" to the Great Smoky Mountains National Park – the most visited national park in the country. Located off of Interstate 40, Sevier County is comprised of the three most popular cities in the state – Pigeon Forge, Gatlinburg, and Sevierville. Over **10 million visitors** choose Sevier County each year to enjoy great shopping, world-class theme parks, theaters and live entertainment, local festivals and events.

Sevier County is also known as the Wedding Capital of the South. More couples a year come to get married in the mountain gateway towns of Gatlinburg, Pigeon Forge, or Sevierville **than anywhere else in the U.S.** except for Las Vegas and New York City.

Pigeon Forge, specifically, has a five mile long parkway lined with more than 2000 hotel rooms, 50 attractions and 200 stores. It is home to about 5,000 full-time residents and a "second home" to over 11 million visitors a year who come to enjoy affordable attractions, filled with action-packed fun and family entertainment.

The scenic Great Smoky Mountains, friendly people, down home hospitality and dining, patriotism, and a nostalgic air of yesteryear's simpler times and family values truly make Pigeon Forge, TN the "All American Get-Away" for over 60 percent of the U.S. population within a day's drive.



# MARKET HIGHLIGHTS: SEVIERVILLE / PIGEON FORGE/ GATLINBURG AREA

## SEVIERVILLE AREA MARKET OVERVIEW

- Sevierville and Pigeon Forge are tourist towns with populations of 15,979 and 6,192, respectively.
- 10-year projected job growth rate of 32.60%.
- The development of the Great Smoky Mountains National Park has ushered in even greater levels of tourism in the region.
- Pigeon Forge is known for Dollywood (a theme park with over three million guests), many outlet malls, and numerous music theaters.
- With 10 million tourists every year, Pigeon Forge is a growing city that boasts 200 stores, 100 craft and gift shops, and dozens of hotels and restaurants.
- Dollywood has pumped hundreds of millions of dollars into the local economy through continuous investments, with the largest investment coming soon.
  - "Winterfest" at Dollywood has taken the seasonality out of the tourism business and produces the busiest day of the year.

## COMPANIES WITH PRESENCE IN SEVIERVILLE AREA



## KNOXVILLE

Known as "The Valley," Knoxville is located conveniently at the crossroads of Interstates 40, 75, and 81, nestled between the Cumberland Plateau and the Great Smoky Mountains. The city is home to 8,100 hotel rooms and 600 restaurants.

While Knoxville is well grounded, it is also strongly positioned for the future and the technology-based world of business. One of the country's five national labs sits in Knoxville's backyard in Oak Ridge.



The main campus of the University of Tennessee is home to nationally acclaimed schools of engineering, business and law. Founded in 1794, UT has nine undergraduate colleges and eleven graduate colleges and has an enrollment of 28,000 students from all 50 states and more than 100 foreign countries. Seventeen additional colleges and training programs in the region produce a ready supply of trained workers. All these organizations feed the strong, entrepreneurial spirit found in Knoxville.

The region's employer base is diverse and robust. There are large government employers like the lab and UT, and many creative, innovative companies too.

Knoxville and the area is one of the fastest growing regions for retirees, too. Due to the low cost of living and abundance of recreational activities – golf, hiking, shopping, etc. – there is no wonder why both workers and retirees are coming to Knoxville.

## MARKET HIGHLIGHTS: KNOXVILLE

### KNOXVILLE MARKET OVERVIEW

- The Knoxville MSA is the third largest MSA in Tennessee with a population of 859,610.
- Home to the University of Tennessee, Pellissippi State Community College, Johnson University, South College, and Knoxville College.
- 10-year projected job growth rate of 35.70%.
- Knoxville is among the 10 fastest growing U.S. cities with roughly 25% of employers in the area expecting to hire.
- The Knoxville-Oak Ridge area is also called "Innovation Corridor," as it is known as the primary alternative-energy hub.
  - Top rated area for green job growth and is home to Oak Ridge National Laboratory, Scripps Network and many more.
- The Knoxville area is undergoing a major economic development with new housing, retail, and restaurants downtown, and significant investment in infrastructure and existing businesses that is slated to create thousands of new jobs.
- Knoxville can expect to see continued job growth with current companies in the area, including Tennessee Valley Authority (nation's largest public power provider), Pilot-Flying J (nation's sixth largest private company), and The H.T. Hackney Company (nation's fourth largest wholesale grocer).

### COMPANIES WITH PRESENCE IN KNOXVILLE



## FLORIDA PANHANDLE



Stunning white beaches, challenging golf and world-famous fishing define the Florida Panhandle. Snuggled against the Gulf of Mexico, the Panhandle is rightfully famed for its sugar-white sands and emerald-hued waters.

Destin is widely known as the "world's luckiest fishing village." Destin also harbors world-class resorts and rentals – and some of the best shopping and dining anywhere.

Pensacola offers art galleries, restaurants and cultural venues. Not only is this the place where all naval pilots train; it also is home to the National Naval Aviation Museum and the Blue Angels Naval aerobatics team.

In Panama City, St. Andrews State Park has been named the #2 Beach in America by Trip Advisor. The 1,260 acre park has forests, sand dunes covered with sea oats, fresh and saltwater marshes, a lagoon swimming area, fishing jetties, hiking trails, 1.5 miles of beach and two campgrounds.

# MARKET HIGHLIGHTS: FLORIDA PANHANDLE

## FLORIDA PANHANDLE MARKET OVERVIEW

- The Pensacola MSA is a sea port with a population of 474,195.
  - 10-year projected job growth rate of 38.60%.
  - The city is known for its military presence, including the Naval Air Station Pensacola, Elgin Air Force Base and the Corry Station Naval Technical Training Center, employing nearly 15,000 individuals.
  - Pensacola has eight local hospitals employing tens of thousands of individuals.
  - The Port of Pensacola is building a new manufacturing facility that will increase jobs and activity at the existing port.
- The Crestview-Fort Walton Beach-Destin, FL MSA has a population of 260,761.
  - 10-year projected job growth rate of 44.30%.
  - 2<sup>nd</sup> fastest-growing MSA in Florida.
  - Destin was voted as one of the 25 Most Recession-Resistant Cities, analyzed out of 499 metro areas.
- The Panama City, FL MSA has a population of 193,247.
  - Named in 2010 as the #1 Metro Area for Economic Growth Potential in the U.S.
  - Ranked the South's #1 Pro-Business Beach Community.

## COMPANIES WITH PRESENCE IN THE FL. PANHANDLE





# SmartFinancial, Inc.

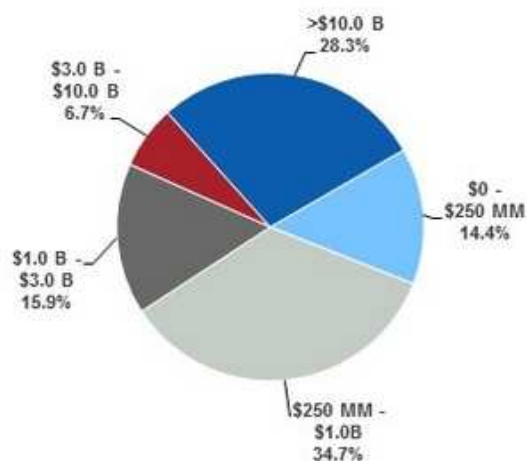
## IV. BANKING LANDSCAPE



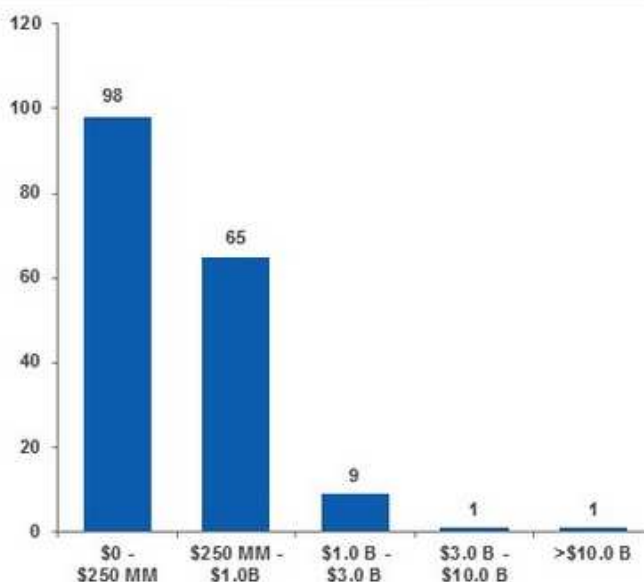
## TENNESSEE BANKING MARKET BY ASSET SIZE

- The Tennessee banking market is characterized by significant fragmentation as the majority of banks and thrifts have under \$250 million in total assets.
- There are currently 11 banks and thrifts based in Tennessee<sup>(1)</sup> that have more than \$1 billion in assets, a group that controls 51% of the market.<sup>(1)(2)</sup> When the recent sales of First State Bank and FSGBank close, there will be only 9 institutions. Given its projected growth, the Combined Company would likely join this select group within its first year of operation.<sup>(3)</sup>

TOTAL ASSET MARKET SHARE BY THRIFT SIZE BANK OR



COUNT OF BANKS AND THRIFTS TOTAL ASSETS BY



# COMBINED BANK WILL BE THE 10<sup>TH</sup> LARGEST BANK TENNESSEE<sup>(1)</sup>

BASED IN

20 Largest Banks and Thrifts<sup>(1)</sup> Based in Tennessee Prior to Recently Announced M&A Transactions

Banks		Banks & Thrifts					Total Assets (\$'000)
New Rank	Old Rank	New Rank	Old Rank	Institution	City	State	Total Assets (\$'000)
1		1	1	First Tennessee Bank, National Association	Memphis	TN	25,462,316
2		2	2	Pinnacle Bank	Nashville	TN	5,997,867
3		3	3	FirstBank	Lexington	TN	2,424,729
N/A - Thrift		4	4	Home Federal Bank of Tennessee	Knoxville	TN	2,125,844
<del>SOLD</del>		<del>5</del>	<del>5</del>	<del>First State Bank</del>	<del>Union City</del>	<del>TN</del>	<del>1,922,930</del>
4		5	6	Wilson Bank and Trust	Lebanon	TN	1,862,701
5		6	7	Franklin Synergy Bank	Franklin	TN	1,355,612
6		7	8	First Citizens National Bank	Dyersburg	TN	1,232,089
7		8	9	First Farmers and Merchants Bank	Columbia	TN	1,166,449
8		9	10	CapStar Bank	Nashville	TN	1,128,395
<del>SOLD</del>		<del>11</del>	<del>11</del>	<del>F&amp;M Bank, National Association</del>	<del>Chattanooga</del>	<del>TN</del>	<del>1,070,234</del>
9		10	12	Avenue Bank	Nashville	TN	997,562
10		11	N/A	Combined Company <sup>(2)</sup>	Pigeon Forge / Chattanooga	TN	955,432
<del>SOLD</del>		<del>13</del>	<del>13</del>	<del>CapitalMark Bank &amp; Trust</del>	<del>Chattanooga</del>	<del>TN</del>	<del>930,377</del>
11		12	14	Bank of Tennessee	Kingsport	TN	916,930
12		13	15	Independent Bank	Memphis	TN	905,965
13		14	16	First Volunteer Bank	Chattanooga	TN	880,718
14		15	17	Citizens National Bank	Sevierville	TN	861,978
15		16	18	F&M Bank	Clarksville	TN	839,930
16		17	19	Commercial Bank	Harrogate	TN	808,050
17		18	20	First National Bank of Pulaski	Pulaski	TN	734,170

43 Source: SNL Financial as of 12/31/14

<sup>1</sup> Largest banks and thrifts based on asset size, consisting only of those institutions chartered in Tennessee and owned by Tennessee-based holding companies, if, in fact, owned by any holding company. Refer to "Old Rank" column for 20 largest institutions prior to recently announced M&A transactions.

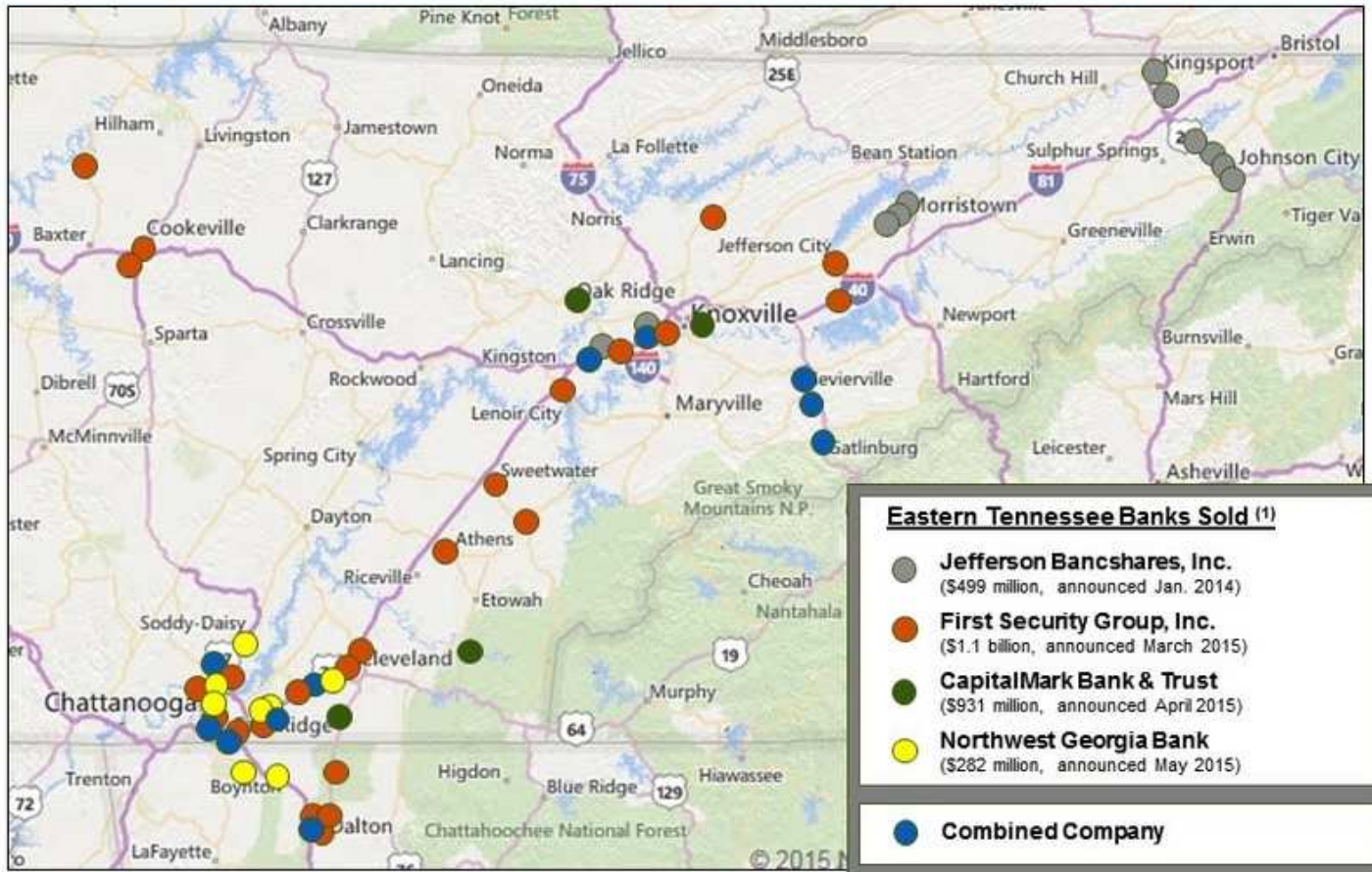
<sup>2</sup> Once Cornerstone Community Bank is merged with SmartBank, which is scheduled to occur within 12 months of transaction closing.

## ...AND THE LARGEST BANK BASED IN EAST TENNESSEE<sup>(1)</sup>

20 Largest Banks and Thrifts<sup>(1)</sup> Based in East Tennessee Prior to Recently Announced M&A Transactions

Banks		Banks & Thrifts					Total Assets (\$'000)
New Rank	Old Rank	New Rank	Old Rank	Institution	City	State	Total Assets (\$'000)
N/A - Thrift		1	1	Home Federal Bank of Tennessee	Knoxville	TN	2,125,844
<del>SOLD</del>		<del>2</del>	<del>2</del>	<del>F&amp;G Bank, National Association</del>	<del>Chattanooga</del>	<del>TN</del>	<del>1,070,234</del>
1		2	N/A	Combined Company <sup>(2)</sup>	Pigeon Forge / Chattanooga	TN	955,432
<del>SOLD</del>		<del>3</del>	<del>3</del>	<del>CapitalMark Bank &amp; Trust</del>	<del>Chattanooga</del>	<del>TN</del>	<del>930,377</del>
2		3	4	Bank of Tennessee	Kingsport	TN	916,930
3		4	5	First Volunteer Bank	Chattanooga	TN	880,718
4		5	6	Citizens National Bank	Sevierville	TN	861,978
5		6	7	Commercial Bank	Harrogate	TN	808,050
6		7	8	First National Bank of Pulaski	Pulaski	TN	734,170
7		8	9	First National Bank of Tennessee	Livingston	TN	725,942
8		9	10	Clayton Bank and Trust	Knoxville	TN	708,292
9		10	11	SouthEast Bank	Farragut	TN	690,870
10		11	12	Citizens Bank	Elizabethton	TN	668,596
11		12	13	Citizens Bank of Lafayette	Lafayette	TN	666,644
12		13	14	Tennessee State Bank	Pigeon Forge	TN	633,830
13		14	15	Citizens Tri-County Bank	Dunlap	TN	627,403
14		15	16	Farmers Bank	Portland	TN	555,158
N/A		N/A	17	SmartBank	Pigeon Forge	TN	533,900
15		16	18	Citizens Bank	Carthage	TN	533,088
16		17	19	Citizens National Bank	Athens	TN	518,424
17		18	20	First National Bank of McMinnville	McMinnville	TN	476,170

# PLUS, A TREMENDOUS OPPORTUNITY EXISTS TO ACQUIRE DISLOCATED CUSTOMERS



45 Source: SML Financial. Data above as of December 31, 2014, except for Jefferson Bancshares, which is as of March 31, 2014.  
 1 Includes Northwest Georgia Bank, which has the majority of its deposits and branches on the Tennessee side of Chattanooga.

# GOOD CORE MARKETS, STRONG PRESENCE FOR EACH BANK

Deposit Market Share - Sevier County, TN				
2014 Rank	Institution	2014 Number of Branches	2014 Total Deposits (\$000)	2014 Deposit Market Share (%)
1	CNB Bancshares Inc.	13	529,855	25.73
2	TN State Bancshares Inc.	11	447,998	21.75
3	SmartFinancial Inc.	3	339,470	16.48
4	Sevier County Bancshares Inc.	6	286,023	13.89
5	First Horizon National Corp.	7	137,643	6.68
6	BB&T Corp.	6	114,559	5.56
7	Home Federal Bank of Tennessee	4	111,641	5.42
8	SunTrust Banks Inc.	1	68,874	3.25
9	U.S. Bancorp	3	19,224	0.93
10	Highlands Bankshares Inc.	2	6,093	0.30
<b>Market Total</b>		<b>56</b>	<b>2,059,368</b>	<b>99.99</b>

Deposit Market Share - Hamilton County, TN				
2014 Rank	Institution	2014 Number of Branches	2014 Total Deposits (\$000)	2014 Deposit Market Share (%)
1	First Horizon National Corp.	18	2,026,965	30.21
2	SunTrust Banks Inc.	24	1,577,836	23.52
3	Regions Financial Corp.	21	1,080,496	16.10
4	CapitalMark Bank & Trust	1	510,884	7.61
5	Cornerstone Bancshares Inc.	5	331,628	4.94
6	First Security Group Inc.	7	274,670	4.09
7	Bank of America Corp.	4	226,988	3.38
8	First Volunteer Corp.	5	162,264	2.42
9	Community Trust & Banking Co.	4	114,857	1.71
10	BB&T Corp.	4	96,506	1.44
<b>Market Total</b>		<b>107</b>	<b>6,709,283</b>	<b>95.42</b>

SEVIER COUNTY (TN)	
Population	95,271
Expected 5-Year Population Growth	5.37% (vs. U.S. avg. of 3.52%)
Unemployment	6.20%
Expected 10-Year Job Growth	32.60%
Median Household Income	\$42,698
Cost of Living Index	87.0 (less than U.S. avg. of 100)

HAMILTON COUNTY (TN)	
Population	354,001
Expected 5-Year Population Growth	4.82% (vs. U.S. avg. of 3.52%)
Unemployment	5.60%
Expected 10-Year Job Growth	33.90%
Median Household Income	\$48,818
Cost of Living Index	90.8 (less than U.S. avg. of 100)

## ADDITIONAL HIGH GROWTH FLORIDA AND TENNESSEE MARKETS

Deposit Market Share - Okaloosa County, FL				
2014 Rank	Institution	2014 Number of Branches	2014 Total Deposits (\$000)	2014 Deposit Market Share (%)
1	Synovus Financial Corp.	8	457,245	13.81
2	Regions Financial Corp.	7	420,324	12.70
3	Beach Community Bancshares Inc.	6	340,859	10.30
4	Southern National Banks Inc.	8	271,926	8.22
5	Bank of America Corp.	5	262,140	7.92
6	Wells Fargo & Co.	5	240,203	7.28
7	BBVA	5	210,134	6.35
8	Florida First City Banks Inc.	4	209,965	6.34
9	First Florida Bancorp Inc.	3	187,096	5.65
10	Hancock Holding Co.	3	159,900	4.83
16	SmartFinancial Inc.	1	56,265	1.70
<b>Market Total</b>		<b>72</b>	<b>3,309,894</b>	<b>85.06</b>

Deposit Market Share - Escambia County, FL				
2014 Rank	Institution	2014 Number of Branches	2014 Total Deposits (\$000)	2014 Deposit Market Share (%)
1	Regions Financial Corp.	11	787,683	20.96
2	Wells Fargo & Co.	8	507,064	13.84
3	Synovus Financial Corp.	7	388,920	10.62
4	Hancock Holding Co.	4	375,989	10.28
5	Bank of America Corp.	5	344,949	9.42
6	Servis First Bancshares Inc.	2	246,305	6.72
7	Home BancShares Inc.	3	182,384	4.98
8	Five Flags Banks Inc.	6	181,914	4.97
9	BBVA	4	159,441	4.35
10	SunTrust Banks Inc.	3	134,706	3.68
16	SmartFinancial Inc.	1	6,040	0.16
<b>Market Total</b>		<b>65</b>	<b>3,662,845</b>	<b>89.96</b>

Deposit Market Share - Knox County, TN				
2014 Rank	Institution	2014 Number of Branches	2014 Total Deposits (\$000)	2014 Deposit Market Share (%)
1	First Horizon National Corp.	22	2,147,101	21.81
2	SunTrust Banks Inc.	23	2,076,844	21.10
3	Home Federal Bank of Tennessee	17	1,438,226	14.61
4	Regions Financial Corp.	18	1,312,432	13.33
5	BB&T Corp.	9	766,901	7.79
6	Pinnacle Financial Partners	5	507,601	5.16
7	Clayton HC Inc.	5	250,440	2.54
8	Bank of America Corp.	2	191,048	1.94
9	Mountain Commerce Bancorp Inc.	1	129,329	1.31
10	Educational Svcs of Am Inc.	1	111,844	1.14
20	SmartFinancial Inc.	2	40,617	0.41
<b>Market Total</b>		<b>160</b>	<b>9,843,973</b>	<b>91.14</b>



# SmartFinancial, Inc.

## V. SUMMARY

Ooltewah Branch



## WHY INVEST IN THE COMBINED COMPANY?

### the right bank

- Once Cornerstone Community Bank and SmartBank are merged, the Combined Company will be the largest bank based in East Tennessee.
- On the verge of \$1 billion in assets.
- A strong balance sheet with significant potential: a core deposit base, a diverse and growing loan portfolio, and strong asset quality.
- Gradual revenue enhancement and noninterest expense savings are typical objectives of any M&A transaction over time, but the SmartFinancial-Cornerstone merger also offers immediate benefits to common shareholders through redemption at transaction closing of Cornerstone's preferred equity (\$15 million at a 10% dividend).

### the right market; the right time

- Attractive demographics and growth opportunities in business-friendly markets.
- As a result of recent M&A consolidation and failed banks, East Tennessee and the Florida Panhandle have experienced and will continue to experience considerable customer dislocation, which is an opportunity for healthy, well-positioned banks.
- The Combined Company will have a talented and opportunistic management team that is ready to seize dislocated customers and lending talent, make acquisitions, and otherwise build-out the franchise.

## THANK YOU

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**SmartFinancial, Inc.**



## SmartFinancial, Inc.

### VI. APPENDIX – PROJECTED PRO FORMA FINANCIALS



*Hixon Branch*

## PROJECTED PRO FORMA BALANCE SHEET (2015-2018)

	Dec. 31, 2015E	Dec. 31, 2016E	Dec. 31, 2017E	Dec. 31, 2018E
Cash and cash equivalents	\$ 51,480	\$ 71,173	\$ 73,333	\$ 73,517
Investment securities available-for-sale, fair value	190,050	192,255	201,868	211,901
Investment securities held-to-maturity, amortized cost	34	25	25	25
Loans, net of deferred fees	727,571	787,580	834,835	884,925
Allowance for loan losses	(4,681)	(6,285)	(8,048)	(10,685)
Net loans	722,890	781,294	826,787	874,239
Bank premises and equipment, net	23,924	24,589	25,818	27,109
Other real estate owned	8,627	6,313	3,157	789
Goodwill	4	-	-	-
Deferred tax asset, net	4,018	4,018	4,018	4,018
Bank owned life insurance	-	-	-	-
Core deposit intangibles	2,495	2,235	2,069	1,904
Other assets	15,838	16,557	17,219	17,583
<b>Total Assets</b>	<b>\$ 1,019,359</b>	<b>\$ 1,098,459</b>	<b>\$ 1,154,294</b>	<b>\$ 1,211,125</b>
Deposits—noninterest-bearing	\$ 121,067	\$ 131,739	\$ 135,691	\$ 142,815
Deposits—interest-bearing	718,322	780,741	814,571	851,297
Total deposits	839,389	912,480	950,262	994,112
Securities sold under repurchase agreements	25,933	28,655	30,088	31,592
Other borrowings	43,582	43,582	39,006	40,956
Other liabilities	9,307	10,567	10,673	10,779
Total liabilities	918,211	995,284	1,030,028	1,077,439
Preferred Stock	12,000	12,000	-	-
Common Stock	5,771	5,771	7,271	7,271
Additional paid in capital	68,040	67,201	90,125	90,125
Retained earnings (deficit)	15,547	18,656	27,086	36,290
Accumulated other comprehensive income (loss)	(209)	(453)	(216)	(0)
Total shareholders' equity	101,148	103,175	124,266	133,686
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,019,359</b>	<b>\$ 1,098,459</b>	<b>\$ 1,154,294</b>	<b>\$ 1,211,125</b>

## PROJECTED PRO FORMA CAPITAL (2015-2018)

	Dec. 31, 2015E	Dec. 31, 2016E	Dec. 31, 2017E	Dec. 31, 2018E
CET	\$ 86,863	\$ 89,394	\$ 122,413	\$ 131,782
Tier 1	98,863	101,394	122,413	131,782
Total Risk Based Capital	103,544	107,680	130,400	142,408
Average Assets	987,396	1,058,910	1,127,630	1,182,709
Risk Weighted Assets	762,270	817,479	870,530	913,052
Tier 1 CET Ratio	11.40%	10.94%	14.00%	14.43%
Tier 1 Leverage Ratio	10.01%	9.58%	10.80%	11.14%
Tier 1 Risk Based Capital Ratio	12.97%	12.40%	14.00%	14.43%
Total Risk Based Capital Ratio	13.58%	13.17%	14.99%	15.60%

## PROJECTED PRO FORMA INCOME STATEMENT (2015-2018)

	Dec. 31 2015E	Dec. 31 2016E	Dec. 31 2017E	Dec. 31 2018E
<b>Interest income:</b>				
Loans, including fees	\$ 38,480	\$ 43,225	\$ 48,624	\$ 50,140
Investment securities	3,507	3,772	3,889	4,290
Federal funds sold and other	144	238	200	200
<b>Total interest income</b>	<b>42,131</b>	<b>47,235</b>	<b>50,713</b>	<b>54,630</b>
<b>Interest expense:</b>				
Deposits	3,843	4,525	5,631	7,129
Other borrowings	542	783	714	822
<b>Total interest expense</b>	<b>4,385</b>	<b>5,308</b>	<b>6,344</b>	<b>7,950</b>
<b>Net interest income</b>	<b>37,746</b>	<b>41,927</b>	<b>44,369</b>	<b>46,679</b>
Provision for loan losses	1,875	1,985	2,330	3,240
<b>Net interest income after loan loss provision</b>	<b>35,870</b>	<b>39,942</b>	<b>42,039</b>	<b>43,439</b>
<b>Non-interest income:</b>				
Service charges on deposit accounts and other fees	1,210	1,743	2,005	2,305
Secondary market loan origination fees	266	475	523	575
Gain on sale of investment securities, net	-	-	-	-
Other noninterest income	3,712	1,784	1,930	2,123
<b>Total non-interest income</b>	<b>5,188</b>	<b>3,973</b>	<b>4,457</b>	<b>5,003</b>
<b>Non-interest expense:</b>				
Salaries and employee benefits	17,619	18,579	19,508	20,484
Occupancy and equipment	4,733	5,293	5,452	5,561
All other expenses	9,281	8,750	7,875	7,482
<b>Total non-interest expense</b>	<b>31,634</b>	<b>32,623</b>	<b>32,836</b>	<b>33,526</b>
Income before income tax expense	9,425	11,291	13,680	14,915
Income tax expense	3,816	4,324	5,230	5,711
<b>Net income</b>	<b>5,609</b>	<b>6,968</b>	<b>8,430</b>	<b>9,204</b>
Preferred Dividends	1,620	988	-	-
Accretion of preferred stock discount	-	-	-	-
<b>Net income available to common shareholders</b>	<b>\$ 3,989</b>	<b>\$ 5,980</b>	<b>\$ 8,430</b>	<b>\$ 9,204</b>

# PRO FORMA ASSUMPTIONS

Pro Forma Assumptions	
Capital Plan	
<b>2015</b>	
<ul style="list-style-type: none"> <li>• Addition of \$15 million in common stock raised at closing</li> <li>• Origination of a \$8 million HC LOC</li> <li>• Payoff of the Series A Preferred of \$15 million at closing</li> </ul>	
<b>2017</b>	
<ul style="list-style-type: none"> <li>• Sale of \$30 million in common stock 1st Q 2017</li> <li>• Pay off the \$8 million HC LOC with proceeds</li> <li>• Pay off the SBLF preferred stock \$12 million with proceeds</li> <li>• Cashless transaction with the Directors for outstanding options maturing Feb. 2017 in the amount of \$3.58 million</li> </ul>	
Balance Sheet	
<b>2015</b>	
<ul style="list-style-type: none"> <li>• 11.7% loan growth</li> <li>• 20.6% increase in loan loss allowance</li> <li>• 26.5% decrease in OREO</li> <li>• 9.4% increase in non-interest bearing transaction accounts</li> <li>• 9.9% increase in interest bearing deposits</li> <li>• Other borrowings decrease \$15 million primarily due to lower short term borrowings</li> </ul>	
<b>2016</b>	
<ul style="list-style-type: none"> <li>• 8.25% loan growth</li> <li>• 34% increase in loan loss allowance</li> <li>• 26.8% decrease in OREO</li> <li>• 8.7% increase in interest bearing deposits</li> </ul>	
<b>2017</b>	
<ul style="list-style-type: none"> <li>• 6% loan growth</li> <li>• 35% increase in loan loss allowance</li> <li>• 50% decrease in OREO</li> <li>• 10.5% decrease in other borrowings driven by the HC LOC reduction</li> </ul>	
<b>2018</b>	
<ul style="list-style-type: none"> <li>• 6% loan growth</li> <li>• 30% increase in loan loss allowance</li> <li>• 75% decrease in OREO</li> </ul>	

Pro Forma Assumptions	
Income Statement	
<b>2015</b>	
<ul style="list-style-type: none"> <li>• Uses 5.58% yield for loans derived from 2014 bank results</li> <li>• Uses 0.56% cost of funds for interest bearing deposits</li> <li>• Other borrowing costs decrease to 1.14%</li> <li>• 15% increase in non-interest income due to merger adjustment</li> <li>• 8.4% increase in payroll</li> <li>• 36% increase in occupancy</li> <li>• 19.8% decrease in other expense due to reductions in OREO &amp; legal</li> </ul>	
<b>2016</b>	
<ul style="list-style-type: none"> <li>• Uses 5.70% yield for loans derived from 2015 bank results</li> <li>• Uses 0.60% cost of funds for interest bearing deposits</li> <li>• Other borrowing costs increase to 1.80%</li> <li>• 23% decrease in non-interest income as banks return to pre-merger revenue levels</li> <li>• 5.5% increase in payroll</li> <li>• 11.8% increase in occupancy</li> <li>• 5.7% decrease in other expense due to reductions in OREO &amp; legal</li> <li>• \$935 thousand accretion from Cornerstone loans</li> </ul>	
<b>2017</b>	
<ul style="list-style-type: none"> <li>• Uses historic yields built into the 2016 bank budgets</li> <li>• Loans increase +5bp's; interest bearing deposits increase 10 bp's</li> <li>• Other borrowing decrease 5 bp's</li> <li>• 10% increase in non-interest income</li> <li>• 5% increase in payroll</li> <li>• 3% increase in occupancy</li> <li>• 10% decrease in other expense due to reductions in OREO &amp; legal</li> <li>• \$935 thousand accretion from Cornerstone loans</li> </ul>	
<b>2018</b>	
<ul style="list-style-type: none"> <li>• Uses historic yields built into the 2016 bank budgets builds on 2017 projection</li> <li>• Loans increase +9bp's; interest bearing deposits increase 15 bp's</li> <li>• Other borrowing costs decrease 10 bp's</li> <li>• 10% increase in non-interest income</li> <li>• 5% increase in payroll</li> <li>• 3% increase in occupancy</li> <li>• 5% decrease in other expense due to reductions in OREO &amp; legal</li> <li>• \$935 thousand accretion from Cornerstone loans</li> </ul>	



**SmartFinancial, Inc.**

**SmartBank**

*Note: Except as otherwise noted herein, the term "SmartFinancial, Inc." and the attendant investment opportunity contemplated by this presentation is intended to refer to the combined pro-forma company of Cornerstone Bancshares, Inc. and SmartFinancial, Inc., after giving effect to completion of the merger between such entities which was announced in December, 2014. For information on the announced merger between those parties, see pg. 8 of this presentation. Eleven other full-service branches and two loan production offices not pictured.*