



April 27, 2017

Dear Fellow Shareholders:

The last few months have been marked with changes in many areas. Significantly, we have a new administration in Washington as well as new governors in both North Carolina and South Carolina; temperatures that fluctuate from below 30° to over 70° in a twenty-four hour period; flooding and hailstorms like we have not seen around here in years; Clemson winning the NCAA football national championship; both UNC and USC making the NCAA men's basketball Final Four and UNC winning the national championship; and USC women winning the NCAA women's basketball national championship. I am sure you can add a few more "changes" of significant proportion to your own list.

While change is a way of life for all of us at some level, it seems that the rate of that change gets quicker every year. This is certainly the case here at the bank. Let us touch on a few examples to confirm our thinking.

- Our website gets more popular each month and is the point of entry to so many of our electronic banking services. We are currently remodeling the website to make it even more functional, to include becoming mobile-friendly and ADA-compliant. Look for the unveiling later this year.
- By the time you receive this letter or shortly thereafter, you will receive the 2017 Proxy Statement for our Annual Meeting of Shareholders to be held May 15th. In addition to voting for directors, the shareholders will vote on the formation of the holding company which we previously announced. The Proxy Statement contains the relevant details of this proposal and addresses the rationale for the creation of CAB Financial Corporation.
- We continue to meet with investment professionals and other interested parties to "tell our story" through sharing publicly available information about our bank. We believe that we have a positive story and that sharing it more widely may lead to a more liquid trading market in our stock. One such interaction involved a virtual presentation through OTC Markets that was attended by approximately 25 investors either live or on a delayed basis via the OTCQX web portal.

Summarized financial information for the quarter ended March 31, 2017 follows this letter. The following notes highlight the first quarter results.

- Net income available to common shareholders was \$973,816 or \$0.14 per diluted common share for the first quarter of 2017. This compares to net income available to common shareholders of \$918,743 or \$0.14 per diluted common share for the same period in 2016. The margin compression that we discussed in our 2016 shareholder communications has continued in 2017. Non-interest income and a decrease in the provision for income taxes helped to offset the negative impact of this anticipated decline in net interest margin in the first quarter of 2017 compared to the first quarter of 2016.

- Total assets grew to \$669.4 million from \$630.6 million, an increase of 6.2%, comparing March 31, 2017 to March 31, 2016 balances.
- Gross loans and leases totaled \$499.8 million at March 31, 2017 compared to \$475.5 million at March 31, 2016, an increase of \$24.3 million, or 5.1%.
- Total deposits were \$548.3 million at March 31, 2017 compared to \$524.0 million at March 31, 2016, an increase of \$24.3 million, or 4.6%.
- Total shareholders' equity increased to \$73.0 million at March 31, 2017 from \$68.4 million at March 31, 2016, representing 10.4% of total assets at both measurement dates. The bank's capital levels continue to exceed the levels required by regulatory standards to be classified as "well capitalized," which is the highest of the five regulator-defined capital categories used to describe an institution's capital strength.
- Non-performing assets remained at a very low percentage of total assets, particularly when compared to our peers, although the March 31, 2017 percentage of 0.64% of total assets does represent a slight increase over the 0.55% of total assets reported as of March 31, 2016.

We are pleased with the bank's performance during the quarter, especially considering the competitive markets in which we operate.

We appreciate your continuing support of our bank. You may keep up with us through our quarterly newsletter, Facebook, Twitter, and our website. If you need to be added to the newsletter list or have any questions, please let us know by calling (864) 208-BANK (2265) or emailing us at info@carolinaalliancebank.com. If there are opportunities at any time for banking services that we can provide to you or anyone with whom you are connected, we would welcome a call or email to allow us to explore the situation.

Yours truly,



John S. Poole
Proposed Chief Executive Officer,
CAB Financial Corporation



John D. Kimberly
President and Chief Executive Officer,
Carolina Alliance Bank

Note:

Certain statements in this letter contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to future plans and expectations, and are thus prospective. Such forward-looking statements are subject to risks, uncertainties, and other factors, such as an economic downturn nationally or in the local markets we serve; competitive pressures among depository and other financial institutions; the rate of delinquencies and amounts of charge-offs; the level of allowance for loan loss; the rates of loan growth or adverse changes in asset quality in the bank's loan portfolios; and changes in the U.S. legal and regulatory framework, including the effect of recent financial reform legislation on the banking industry, any of which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

CAROLINA ALLIANCE BANK
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2016</u>
Assets			
Cash and due from banks	\$ 17,371,969	\$ 13,100,026	\$ 15,837,308
Federal funds sold and interest bearing bank balances	23,368,884	5,894,070	20,109,529
Investment securities available for sale	98,100,836	97,976,406	94,490,847
Other investments	1,811,200	1,461,600	1,593,300
Loans held for sale	189,550	2,093,952	2,176,737
Loans and leases, net of allowance for losses (see "Asset Quality Data")	494,513,502	488,136,402	468,600,225
Premises and equipment, net	8,663,865	8,777,157	8,548,136
Leased assets	5,011,353	5,104,187	4,882,836
Bank-owned life insurance	11,439,110	11,358,608	3,668,167
Goodwill	4,057,337	4,057,337	4,332,561
Core deposit intangible	1,317,152	1,404,266	1,691,936
Other assets	<u>3,510,751</u>	<u>3,568,978</u>	<u>4,691,036</u>
 Total assets	 <u>\$ 669,355,509</u>	 <u>\$ 642,932,989</u>	 <u>\$ 630,622,618</u>
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	\$ 548,310,472	\$ 527,599,212	\$ 523,984,829
Securities sold to customers under agreements to repurchase	16,047,668	16,711,164	9,923,170
Other borrowings	29,000,000	24,680,000	24,600,000
Accrued interest	123,893	115,025	119,476
Accrued expenses and other	<u>2,890,645</u>	<u>3,532,144</u>	<u>3,584,591</u>
Total liabilities	<u>596,372,678</u>	<u>572,637,545</u>	<u>562,212,066</u>
Shareholders' equity:			
Preferred stock (all shares redeemed on February 23, 2016)	-	-	-
Common stock	6,714,264	6,534,833	6,523,863
Additional paid in capital	60,454,216	59,055,109	58,941,360
Retained earnings	6,543,399	5,569,583	2,341,338
Accumulated other comprehensive income (loss)	<u>(729,048)</u>	<u>(864,081)</u>	<u>603,991</u>
Total shareholders' equity	<u>72,982,831</u>	<u>70,295,444</u>	<u>68,410,552</u>
 Total liabilities and shareholders' equity	 <u>\$ 669,355,509</u>	 <u>\$ 642,932,989</u>	 <u>\$ 630,622,618</u>
 Book value per common share	 <u>\$ 10.86</u>	 <u>\$ 10.76</u>	 <u>\$ 10.49</u>
Tangible book value per common share	<u>\$ 10.06</u>	<u>\$ 9.92</u>	<u>\$ 9.56</u>
Common shares outstanding	<u>6,714,264</u>	<u>6,534,833</u>	<u>6,523,863</u>

CAROLINA ALLIANCE BANK
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	March 31,	
	2017	2016
Interest Income:		
Loans and leases	\$ 5,571,460	\$ 5,689,563
Investment securities	539,051	510,843
Federal funds sold and bank deposits	<u>26,456</u>	<u>10,763</u>
Total interest income	<u>6,136,967</u>	<u>6,211,169</u>
Interest Expense:		
Deposits	598,772	541,590
Other borrowings	<u>90,256</u>	<u>60,264</u>
Total interest expense	<u>689,028</u>	<u>601,854</u>
Net Interest Income	5,447,939	5,609,315
Provision for Loan Losses	<u>126,000</u>	<u>50,000</u>
Net Interest Income after Provision for Loan Losses	<u>5,321,939</u>	<u>5,559,315</u>
Non-Interest Income:		
Operating lease income	598,575	490,994
Service charges on deposit accounts	196,662	182,527
Mortgage brokerage	211,230	191,755
Gain on sale of investment securities	2,606	-
Gain (loss) on sale of assets	14,601	(896)
Other income	<u>235,670</u>	<u>139,439</u>
Total non-interest income	<u>1,259,344</u>	<u>1,003,819</u>
Non-Interest Expense:		
Salaries and employee benefits	2,798,077	2,766,631
Occupancy and equipment	521,496	506,849
Operating lease expense	527,044	430,975
Data processing	546,332	504,774
Marketing	71,329	56,104
Postage, supplies and printing	51,920	56,101
Other expense	<u>715,768</u>	<u>784,481</u>
Total non-interest expense	<u>5,231,966</u>	<u>5,105,915</u>
Income Before Income Taxes	1,349,317	1,457,219
Income Tax Expense	<u>375,501</u>	<u>531,393</u>
Net Income	973,816	925,826
Preferred Dividends Declared	<u>-</u>	<u>7,083</u>
Net Income Available to Common Shareholders	<u>\$ 973,816</u>	<u>\$ 918,743</u>
Basic Net Income per Common Share	<u>\$ 0.15</u>	<u>\$ 0.14</u>
Diluted Net Income per Common Share	<u>\$ 0.14</u>	<u>\$ 0.14</u>
Weighted Average Common Shares Outstanding:		
Basic	<u>6,630,665</u>	<u>6,520,072</u>
Diluted	<u>6,767,050</u>	<u>6,573,958</u>

	March 31, 2017					
	Actual		Minimum Basel III Phase- In Requirement ⁽¹⁾		Minimum to be Classified "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Amounts in \$000)					
Common equity tier 1 capital (to risk weighted assets)	\$69,020	12.0%	\$33,183	5.8%	\$37,511	6.5%
Tier 1 capital (to risk weighted assets)	\$69,020	12.0%	\$41,839	7.3%	\$46,167	8.0%
Total capital (to risk weighted assets)	\$74,132	12.8%	\$53,381	9.3%	\$57,709	10.0%
Tier 1 capital (to average assets)	\$69,020	10.8%	\$25,590	4.0%	\$31,988	5.0%

⁽¹⁾ Includes Capital Conservation Buffer

CAROLINA ALLIANCE BANK
ASSET QUALITY DATA
(Unaudited)

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2016</u>
Gross loans ⁽¹⁾	\$499,789,884	\$495,184,964	\$475,522,318
Allowance for loan losses	5,086,832	4,954,610	4,745,356
Net loans	<u>\$494,703,052</u>	<u>\$490,230,354</u>	<u>\$470,776,962</u>
Allowance as a percent of gross loans	<u>1.02%</u>	<u>1.00%</u>	<u>1.00%</u>
Loans charged off (recovered), net (year to date)	<u>\$ (6,221)</u>	<u>\$ (65,703)</u>	<u>\$ (16,449)</u>
Net loans charged off (recovered) as a percent of gross loans	<u>0.00%</u>	<u>-0.01%</u>	<u>0.00%</u>
Loans past due 30-89 days	<u>\$ 689,002</u>	<u>\$ 2,693,367</u>	<u>\$ 382,349</u>
Non-accrual loans	\$ 4,229,354	\$ 1,937,279	\$ 2,633,341
Real estate acquired in settlement of loans	79,292	127,595	824,689
Total non-performing assets	<u>\$ 4,308,646</u>	<u>\$ 2,064,874</u>	<u>\$ 3,458,030</u>
Non-accrual loans as a percent of gross loans	<u>0.85%</u>	<u>0.39%</u>	<u>0.55%</u>
Non-performing assets as a percent of total assets	<u>0.64%</u>	<u>0.32%</u>	<u>0.55%</u>
Net losses (gains) on real estate or repossessed property acquired in settlement of loans	<u>\$ (14,886)</u>	<u>\$ 124,274</u>	<u>\$ 60,086</u>

⁽¹⁾ "Loans" as used in this schedule includes loans held for sale and finance leases.

CAROLINA ALLIANCE BANK
SELECTED YEAR-TO-DATE AVERAGES
(Unaudited)

	As of and for the Three Months Ended March 31,					
	2017			2016		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	\$ 23,368,884	\$ 8,529,826	1.26%	\$ 20,109,529	\$ 7,094,251	0.61%
Investment securities	98,100,836	97,432,718	2.18%	94,490,847	91,739,713	2.15%
Other investments	1,811,200	1,842,318	3.62%	1,593,300	1,753,469	4.64%
Loans and leases, gross	499,789,884	497,341,813	4.54%	475,522,318	475,389,401	4.81%
Total earning assets and yield	<u>\$623,070,804</u>	<u>\$605,146,675</u>	<u>4.11%</u>	<u>\$591,715,994</u>	<u>\$575,976,834</u>	<u>4.34%</u>
Liabilities:						
Non-interest-bearing demand deposits	\$108,937,082	\$100,834,597	0.00%	\$ 91,127,481	\$ 88,193,727	0.00%
Interest-bearing demand deposits	61,077,153	60,501,353	0.25%	50,633,541	51,184,243	0.21%
Savings deposits	78,940,359	73,995,557	0.32%	72,351,703	63,247,860	0.37%
Money market accounts	151,972,479	146,270,331	0.40%	171,916,677	167,750,557	0.43%
Time deposits	147,383,399	146,811,828	1.00%	137,955,427	130,995,160	0.86%
Total deposits and cost of deposits	548,310,472	528,413,666	0.46%	523,984,829	501,371,547	0.43%
Federal funds purchased	-	1,295,167	1.03%	-	1,694,411	0.77%
Securities sold under agreements to repurchase	16,047,668	15,625,858	0.58%	9,923,170	7,907,357	0.37%
FHLB advances	29,000,000	30,450,000	0.85%	24,600,000	27,248,352	0.71%
Other	100,000	100,000	3.42%	200,000	200,000	3.11%
Total interest-bearing liabilities and cost of funds	<u>\$593,458,140</u>	<u>\$575,884,691</u>	<u>0.49%</u>	<u>\$558,707,999</u>	<u>\$538,421,667</u>	<u>0.45%</u>
Total earning assets and net interest margin	<u>\$623,070,804</u>	<u>\$605,146,675</u>	<u>3.65%</u>	<u>\$591,715,994</u>	<u>\$575,976,834</u>	<u>3.92%</u>