JOINT PROXY STATEMENT/OFFERING CIRCULAR





MERGER PROPOSED – YOUR VOTE IS IMPORTANT

The boards of directors of Carolina Alliance Bank (which we refer to herein as "Carolina Alliance"), PBSC Financial Corporation (which we refer to herein as "PBSC Financial") and Pinnacle Bank of South Carolina (which we refer to herein as "Pinnacle Bank" and, together with PBSC Financial, "Pinnacle") have agreed to a merger that will result in PBSC Financial and Pinnacle Bank merging with and into Carolina Alliance. We expect the proposed merger will bring together two complementary institutions to create a bank positioned for future growth. We also believe the combined bank will have the potential to achieve stronger earnings growth and create more shareholder value in the future than either could achieve separately. Our combined bank will have the potential to provide additional commercial and retail banking services to our customers and will have branches located in Upstate South Carolina and Western North Carolina. Based on December 31, 2014 data, the combined bank will have assets of approximately $570.0 million.

If the merger is completed, each outstanding share of PBSC Financial voting common stock (which we refer to herein as the "PBSC Financial common stock") will be exchanged for either $12.00 in cash or a number of shares of Carolina Alliance common stock equal to the exchange ratio specified in the merger agreement. Each shareholder of PBSC Financial will have the opportunity to elect to receive cash, Carolina Alliance common stock, or a combination of cash and Carolina Alliance common stock in exchange for the shareholder's PBSC Financial shares. Elections by PBSC Financial shareholders will be prorated such that in the aggregate 80% of PBSC Financial's non-dissenting shares of common stock will be converted into the right to receive shares of Carolina Alliance common stock and 20% will be converted into the right to receive the cash consideration. Carolina Alliance will not issue fractional shares in the merger and will instead pay cash, without interest, for the value of any fraction of a share of Carolina Alliance common stock that a PBSC Financial shareholder would otherwise be entitled to receive.

The exchange ratio will be 1.0909 if the volume weighted average price (rounded up to the nearest cent) of Carolina Alliance's common stock on the OTCQX during the 20 consecutive trading days ending on the fifth business day immediately prior to the effective time of the merger (which we refer to herein as the "Final Carolina Alliance Stock Price") is at or below $12.65. If the Final Carolina Alliance Stock Price is above $12.65, then the exchange ratio will be equal to $13.80 divided by the Final Carolina Alliance Stock Price. If the Final Carolina Alliance Stock Price is below $9.35, then each share of PBSC Financial common stock eligible to receive the stock consideration will be exchanged for 1.0909 shares of Carolina Alliance common stock plus an amount of cash equal to the difference between $10.20 and the product of 1.0909 and the Final Carolina Alliance Stock Price.

If at any time during the three business days following the fifth business day immediately prior to the date on which the effective time of the merger is to occur (which we refer to herein as the "Determination Date"), (i) the Final Carolina Alliance Stock Price is greater than $15.00, Pinnacle may terminate the merger agreement, or (ii) the Final Carolina Alliance Stock Price is less than $8.00, Carolina Alliance or Pinnacle may terminate the merger agreement.

The value of the Carolina Alliance shares to be issued in the merger will fluctuate between now and the closing date of the merger. The common stock of Carolina Alliance is quoted on the OTCQX market place operated by OTC Markets Group, Inc., under the symbol "CRLN." The common stock of PBSC Financial is not listed for trading on any exchange or quoted on any interdealer quotation system.

We cannot complete the merger unless we obtain approvals from the necessary regulatory agencies and the respective shareholders of each of Carolina Alliance and PBSC Financial. Carolina Alliance and PBSC Financial will each hold an annual meeting where their respective shareholders will be asked to vote to approve the merger

agreement. **Your vote is important.** Whether or not you plan to attend your shareholders' meeting, please take the time to vote by telephone, through the Internet, or by completing and mailing the enclosed proxy card or such other document as your broker instructs you to use if your shares are held in "street name." If you sign, date, and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote "FOR" the merger and the transactions contemplated by the merger agreement, "FOR" the proposal to elect directors, "FOR" the proposal to ratify the appointment of auditors and "FOR" the proposal to adjourn the annual meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the annual meeting, in person or by proxy, to approve the merger agreement. If you do not return your proxy card, or if you do not instruct your broker how to vote any shares held for you in "street name," the effect will be the same as a vote against the merger.

The places, dates and times of the annual meetings are as follows:

For Carolina Alliance shareholders:	For PBSC Financial shareholders:
Carolina Alliance Bank	PBSC Financial Corporation
200 South Church Street	937 North Pleasantburg Drive
Spartanburg, South Carolina 29306	Greenville, South Carolina 29607
10:00 AM June 29, 2015	5:30 PM June 25, 2015

You should read this entire joint proxy statement/offering circular carefully because it contains important information about the merger. **In particular, you should read carefully the information under the section entitled "Risk Factors," beginning on page 11.**

All references to the "merger" or the "merger agreement" in this joint proxy statement/offering circular shall be deemed to include the agreement and plan of merger that Carolina Alliance and PBSC Financial shareholders are required to approve under Section 33-11-101 *et seq*. of the South Carolina Business Corporation Act of 1988.

Neither the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation nor any state securities commission or any bank regulatory agency has approved or disapproved the securities to be issued in the merger or determined if this joint proxy statement/offering circular is accurate or adequate. Any representation to the contrary is a criminal offense. The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of Carolina Alliance, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This joint proxy statement/offering circular is dated May 11, 2015 and is first being mailed to shareholders of Carolina Alliance and PBSC Financial on or about May 15, 2015.

CAROLINA ALLIANCE BANK

200 South Church Street
Spartanburg, South Carolina 29306
(864) 542-2428

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 29, 2015

To the Shareholders of Carolina Alliance:

An annual meeting of shareholders of Carolina Alliance will be held at the bank's headquarters located at 200 South Church Street, Spartanburg, South Carolina 29306 on June 29, 2015 at 10:00 a.m., local time, for the following purposes:

1. Merger. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of March 23, 2015, by and among Carolina Alliance, PBSC Financial and Pinnacle Bank, pursuant to which PBSC Financial and Pinnacle Bank will merge with and into Carolina Alliance (which we refer to herein as the "Merger Proposal"). A copy of the merger agreement is attached to the accompanying joint proxy statement/offering circular as Appendix A.

2. Election of Directors. To consider and vote on a proposal to elect five directors, each for a term expiring at the 2018 annual meeting of shareholders (which we refer to herein as the "Carolina Alliance Directors Proposal").

3. Ratification of Accountants. To consider and vote on a proposal to ratify the appointment of Elliott Davis Decosimo, LLC as Carolina Alliance's independent auditor for the year ending December 31, 2015 (which we refer to herein as the "Carolina Alliance Accountants Proposal").

4. Adjournment. To consider and vote on a proposal to authorize the board of directors to adjourn the annual meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the annual meeting, in person or by proxy, to approve the Agreement and Plan of Merger (which we refer to herein as the "Adjournment Proposal").

5. Other Business. To transact any other business as may properly come before the annual meeting or any adjournment or postponement of the annual meeting.

We have fixed the close of business on April 30, 2015 as the record date for the annual meeting. Only Carolina Alliance common shareholders of record at that time are entitled to notice of and to vote at the annual meeting and at any adjournment or postponement of the annual meeting. Approval of the Merger Proposal requires the affirmative vote of holders of two-thirds of the outstanding shares of Carolina Alliance common stock. A plurality of votes cast by holders of Carolina Alliance common stock is required to elect directors. The Carolina Alliance Accountants Proposal and the Adjournment proposal will be approved if the number of shares of Carolina Alliance common stock, represented in person or by proxy at the Carolina Alliance annual meeting and entitled to vote thereon, voted in favor of each such proposal exceeds the number of shares voted against such proposal.

CAROLINA ALLIANCE'S BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND UNANIMOUSLY RECOMMENDS THAT CAROLINA ALLIANCE SHAREHOLDERS VOTE "FOR" THE MERGER PROPOSAL, "FOR" THE CAROLINA ALLIANCE DIRECTORS PROPOSAL, "FOR" THE CAROLINA ALLIANCE ACCOUNTANTS PROPOSAL AND "FOR" THE ADJOURNMENT PROPOSAL.

Whether or not you plan to attend the annual shareholders' meeting, please take the time to vote by telephone, through the Internet, or by completing, signing, dating, and returning the enclosed proxy card, or such other document as your broker instructs you to use if your shares are held in "street name" in the accompanying pre-addressed postage-paid envelope. If you are a record shareholder, you may revoke your proxy at any time before it

is voted by giving written notice of revocation to Carolina Alliance's Secretary, or by filing a properly executed proxy card of a later date with Carolina Alliance's Secretary, at or before the meeting. If you are a record shareholder, you may also revoke your proxy by attending and voting your shares in person at the meeting. If you attend the meeting and vote your shares by ballot, your vote at the meeting will revoke any vote you submitted previously by telephone, over the Internet, or by mail. Even if you currently plan to attend the meeting, we recommend that you also vote by proxy so that your vote will be counted if you later decide not to attend the meeting. If your shares are held in "street name" by your broker, you must follow the directions you will receive from your broker to change or revoke your proxy.

If the merger agreement is approved and the merger is completed, you will have the right to dissent from the merger and obtain payment in cash of the "fair value" of your shares of Carolina Alliance common stock, provided you did not vote in favor of the merger. Your right to dissent is conditioned upon your compliance with the South Carolina statutes regarding dissenters' rights. The full text of these statutes is attached as Appendix B to the accompanying joint proxy statement/offering circular and a summary of the provisions can be found under the caption "The Merger—Rights of Dissenting Carolina Alliance and PBSC Financial Shareholders Under South Carolina Law."

The enclosed joint proxy statement/offering circular provides a detailed description of the annual meeting, the merger, the documents related to the merger, the election of directors, the ratification of accountants and other related matters. We urge you to read the joint proxy statement/offering circular and its appendices carefully and in their entirety. If you have any questions concerning this joint proxy statement/offering circular, would like additional copies of the joint proxy statement/offering circular or need help voting your shares of Carolina Alliance common stock, please contact our proxy solicitor, Georgeson Inc., at (800) 903-2897. Questions concerning the merger should be directed to Lamar Simpson, Chief Financial Officer and Chief Operating Officer, 200 South Church Street, Spartanburg, SC 29306, at (864) 542-2428.

We do not know of any other matters to be presented at the annual meeting but if other matters are properly presented, the persons named as proxies will vote on such matters at their discretion.

By Order of the Board of Directors





Terry Cash
Chairman

John Poole
Chief Executive Officer

Spartanburg, South Carolina
May 11, 2015

PBSC FINANCIAL CORPORATION

937 North Pleasantburg Drive
Greenville, South Carolina 29607
(864) 233-6915

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 25, 2015

To the Shareholders of PBSC Financial:

An annual meeting of shareholders of PBSC Financial will be held at the corporation's headquarters located at 937 North Pleasantburg Drive, Greenville, South Carolina 29607 on June 25, 2015 at 5:30 p.m., local time, for the following purposes:

1. Merger. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of March 23, 2015, by and among Carolina Alliance, PBSC Financial and Pinnacle Bank, pursuant to which PBSC Financial and Pinnacle Bank will merge with and into Carolina Alliance (which we refer to herein as the "Merger Proposal"). A copy of the merger agreement is attached to the accompanying joint proxy statement/offering circular as Appendix A.

2. Election of Directors. To consider and vote on a proposal to elect 10 directors, each for a term expiring at the 2016 annual meeting of shareholders (which we refer to herein as the "PBSC Financial Directors Proposal").

3. Adjournment. To consider and vote on a proposal to authorize the board of directors to adjourn the annual meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the annual meeting, in person or by proxy, to approve the Agreement and Plan of Merger (which we refer to herein as the "Adjournment Proposal").

4. Other Business. To transact any other business as may properly come before the meeting or any adjournment or postponement.

We have fixed the close of business on April 30, 2015 as the record date for the annual meeting. Only record holders of PBSC Financial voting common stock at that time are entitled to notice of and to vote at the annual meeting and at any adjournment or postponement of the annual meeting. Approval of the Merger Proposal requires the affirmative vote of holders of a majority of the outstanding shares of PBSC Financial common stock. A plurality of votes cast by holders of PBSC Financial common stock is required to elect directors. The PBSC Financial Adjournment proposal will be approved if the number of shares of PBSC Financial common stock, represented in person or by proxy at the PBSC Financial annual meeting and entitled to vote thereon, voted in favor of each such proposal exceeds the number of shares voted against such proposal.

PBSC FINANCIAL'S BOARD OF DIRECTORS HAS APPROVED THE MERGER AGREEMENT AND UNANIMOUSLY RECOMMENDS THAT PBSC FINANCIAL SHAREHOLDERS VOTE "FOR" THE MERGER PROPOSAL, "FOR" THE PBSC FINANCIAL DIRECTORS PROPOSAL AND "FOR" THE ADJOURNMENT PROPOSAL.

Whether or not you plan to attend the annual shareholders meeting, please take the time to vote by telephone, through the Internet, or by completing, signing, dating, and returning the enclosed proxy card, or such other document as your broker instructs you to use if your shares are held in "street name" in the accompanying pre-addressed postage-paid envelope. If you are a record shareholder, you may revoke your proxy at any time before it is voted by giving written notice of revocation to PBSC Financial's Secretary, or by filing a properly executed proxy card of a later date with PBSC Financial's Secretary, at or before the meeting. If you are a record shareholder, you may also revoke your proxy by attending and voting your shares in person at the meeting. If you attend the meeting and vote your shares by ballot, your vote at the meeting will revoke any vote you submitted previously by telephone, over the Internet, or by mail. Even if you currently plan to attend the meeting, we recommend that you also vote by

proxy so that your vote will be counted if you later decide not to attend the meeting. If your shares are held in "street name" by your broker, you must follow the directions you will receive from your broker to change or revoke your proxy.

If the merger agreement is approved and the merger is completed, you will have the right to dissent from the merger and obtain payment in cash of the "fair value" of your shares of PBSC Financial common stock, provided you did not vote in favor of the merger. Your right to dissent is conditioned upon your compliance with the South Carolina statutes regarding dissenters' rights. The full text of these statutes is attached as Appendix B to the accompanying joint proxy statement/offering circular and a summary of the provisions can be found under the caption "The Merger—Rights of Dissenting Carolina Alliance and PBSC Financial Shareholders Under South Carolina Law."

The enclosed joint proxy statement/offering circular provides a detailed description of the annual meeting, the merger, the documents related to the merger, the election of directors and other related matters. We urge you to read the joint proxy statement/offering circular and its appendices carefully and in their entirety. If you have any questions concerning the merger or the joint proxy statement/offering circular, would like additional copies of the joint proxy statement/offering circular or need help voting your shares of PBSC Financial common stock, please contact Tommy Warren, Chief Financial Officer, 937 North Pleasantburg Drive, Greenville, South Carolina 29607, at (864) 233-6915.

We do not know of any other matters to be presented at the annual meeting but if other matters are properly presented, the persons named as proxies will vote on such matters at their discretion.

By Order of the Board of Directors





David G. Barnett
President and Chief Executive Officer

Richard H. Sumerel
Chairman

Greenville, South Carolina
May 11, 2015

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why is PBSC Financial merging with and into Carolina Alliance?

A: PBSC Financial is merging with and into Carolina Alliance because its board of directors believes that the merger will provide shareholders with substantial benefits and will enable the bank to better serve its customers and grow by expanding further into South Carolina as well as expanding into North Carolina. Our combined bank will provide additional commercial and retail banking services and products to our customers. A detailed discussion of the background of and reasons for the proposed merger is contained under the headings "Background of the Merger," "Carolina Alliance's Reasons for the Merger," and "PBSC Financial's Reasons for the Merger."

Q: What will I receive in the merger?

A: ***Carolina Alliance shareholders***. If the merger is completed, Carolina Alliance shareholders will not receive any merger consideration and will continue to hold the shares of Carolina Alliance common stock that they currently hold.

PBSC Financial shareholders. Each share of PBSC Financial voting common stock (which we refer to herein as the "PBSC Financial common stock") can be exchanged for either: (i) $12.00 in cash; (ii) a number of shares of Carolina Alliance common stock equal to the exchange ratio, plus the Additional Cash Amount (as defined below), if any; or (iii) a combination of cash and shares of Carolina Alliance common stock. The exchange ratio will be determined based on the volume weighted average price (rounded up to the nearest cent) of Carolina Alliance's common stock on the OTCQX during the 20 consecutive trading days ending on the fifth business day immediately prior to the effective time of the merger, which we refer to herein as the "Final Carolina Alliance Stock Price". The exchange ratio will be 1.0909 if the Final Carolina Alliance Stock Price is at or below $12.65. If the Final Carolina Alliance Stock Price is above $12.65, the exchange ratio will be equal to $13.80 divided by the Final Carolina Alliance Stock Price. If the Final Carolina Alliance Stock Price is below $9.35, each share of PBSC Financial common stock eligible to receive the stock consideration will be exchanged for 1.0909 shares of Carolina Alliance common stock plus an amount of cash equal to the difference between $10.20 and the product of 1.0909 and the Final Carolina Alliance Stock Price (which we refer to as the "Additional Cash Amount").

If at any time during the three business days following the fifth business day immediately prior to the date on which the effective time of the merger is to occur (which we refer to as the "Determination Date"), (i) the Final Carolina Alliance Stock Price is greater than $15.00, Pinnacle may terminate the merger agreement, or (ii) the Final Carolina Alliance Stock Price is less than $8.00, Carolina Alliance or Pinnacle may terminate the merger agreement.

In total, 20% of PBSC Financial's non-dissenting shares of common stock outstanding will be exchanged for cash, and 80% of PBSC Financial's non-dissenting shares of common stock outstanding will be exchanged for shares of Carolina Alliance common stock. Carolina Alliance will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, for the value of any fraction of a share of Carolina Alliance common stock that you would otherwise be entitled to receive. The method for determining the value of a fractional share is described on page 61 of this joint proxy statement/offering circular.

Q: How does Carolina Alliance's board of directors recommend that Carolina Alliance shareholders vote at the annual meeting?

A: Carolina Alliance's board of directors unanimously recommends that Carolina Alliance shareholders vote "FOR" the Merger Proposal, "FOR" the Carolina Alliance Directors Proposal, "FOR" the Carolina Alliance Accountants Proposal and "FOR" the Adjournment Proposal.

Q: How does PBSC Financial's board of directors recommend that PBSC Financial shareholders vote at the annual meeting?

A: PBSC Financial's board of directors unanimously recommends that PBSC Financial shareholders vote "FOR" the Merger Proposal, "FOR" the PBSC Financial Directors Proposal and "FOR" the Adjournment Proposal.

Q: What should I do now?

A: After you have carefully read this document, please vote your shares as soon as possible by telephone, through the Internet, or by completing, signing, dating, and returning the enclosed proxy card in the accompanying pre-addressed postage-paid envelope or by completing such other document as your broker instructs you to use if your shares are held in "street name."

Q: Why is my vote important?

A: The merger agreement must be approved by the affirmative vote of two-thirds of the outstanding shares of Carolina Alliance common stock and a majority of the outstanding shares of PBSC Financial common stock. Accordingly, if a Carolina Alliance or PBSC Financial shareholder fails to vote on the merger at his or her company's respective annual meetings, it will have the same effect as a vote against the merger.

Q: If my shares are held in "street name" by my broker, will my broker vote my shares for me?

A: No. Your broker will vote your shares on the proposal to approve and adopt the merger agreement only if you provide instructions on how to vote. You should instruct your broker how to vote your shares following the directions your broker provides. If you do not provide instructions to your broker, your shares will not be voted on the Merger Proposal, which will have the same effect as a vote against the merger.

Q: Can I change my vote after I have submitted my proxy?

A: Yes. There are three ways you can change your vote. First, you may send a written notice to the person to whom you submitted your proxy stating that you would like to revoke your proxy. Second, you may complete and submit a later dated proxy with new voting instructions. The latest vote actually received by your bank prior to its shareholders' meeting will be your vote. Any earlier votes will be revoked. Third, if you are a record shareholder, you may attend your shareholders' meeting and vote in person. Any earlier votes will be revoked. Simply attending your meeting without voting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions you will receive from your broker to change or revoke your proxy.

Q: Do I have the right to dissent and obtain the fair value for my shares?

A: Yes. If the merger is completed, holders of both Carolina Alliance common stock and holders of PBSC Financial common stock who have not voted in favor of the merger will each have the right to dissent and receive the "fair value" of their shares in cash. Both Carolina Alliance's shareholders and PBSC Financial's shareholders dissenters' rights are governed by South Carolina law. A copy of the applicable statutes is attached as Appendix B to this joint proxy statement/offering circular.

Q: If I am a PBSC Financial shareholder, should I send in my stock certificates now?

A: No. You should not send in your stock certificates at this time. If the merger is completed, Carolina Alliance will send all PBSC Financial shareholders written instructions for exchanging PBSC Financial stock certificates for the merger consideration. Carolina Alliance shareholders will continue to own their shares and are not required to do anything with their stock certificates as a result of the Merger Proposal.

Q: What happens if I cannot locate my stock certificate(s)?

A: If your PBSC Financial stock certificates have been lost, stolen, or destroyed, you will have to prove your ownership of these certificates and that they were lost, stolen, or destroyed and an indemnity bond must be purchased at your expense before you receive any consideration for your shares of PBSC Financial common stock. If the merger is completed, Carolina Alliance or its agent will send you instructions on how to provide evidence of ownership and the purchase of an indemnity bond for lost certificates.

Q: When do you expect to complete the merger?

A: Carolina Alliance and PBSC Financial expect to complete the merger at the beginning of the fourth quarter of 2015. However, neither Carolina Alliance nor PBSC Financial can assure you of when or if the merger will be completed. Carolina Alliance and PBSC Financial must first obtain the approval of Carolina Alliance shareholders and PBSC Financial shareholders for the merger, as well as obtain necessary regulatory approvals and satisfy certain other closing conditions.

Q: Whom should I call with questions about the merger?

A: Carolina Alliance shareholders should call Lamar Simpson at (864) 542-2428. PBSC Financial shareholders should call Tommy Warren at (864) 233-6915.

SUMMARY

This summary highlights material information from this joint proxy statement/offering circular. It may not contain all of the information that is important to you. To better understand the merger and its potential impact on you, Carolina Alliance and PBSC Financial urge you to read this entire document carefully, including the appendices and enclosures. Each item in this summary includes a page reference directing you to a more complete discussion of the item.

The Parties (page 105 for Carolina Alliance and page 144 for Pinnacle)

Carolina Alliance Bank
200 South Church Street
Spartanburg, South Carolina 29306
(864) 542-2428

Carolina Alliance is a South Carolina state banking corporation. Carolina Alliance engages in a general banking business. Carolina Alliance maintains a main office in Spartanburg, South Carolina. As of December 31, 2014, Carolina Alliance had approximately $418.0 million in total assets.

PBSC Financial Corporation
Pinnacle Bank of South Carolina
937 North Pleasantburg Drive
Greenville, South Carolina 29607
(864) 233-6915

PBSC Financial is a South Carolina corporation and the bank holding company for Pinnacle Bank of South Carolina, a South Carolina state banking corporation (which we refer to herein as "Pinnacle Bank" and, together with PBSC Financial, "Pinnacle"). Pinnacle Bank engages in a general banking business. Pinnacle has its main office in Greenville, South Carolina. As of December 31, 2014, Pinnacle had approximately $154.2 million in total assets.

The Merger (page 41)

Under the terms of the merger agreement, PBSC Financial and Pinnacle Bank will merge with and into Carolina Alliance with Carolina Alliance being the surviving entity. After the merger, Carolina Alliance will continue its existence under South Carolina law while PBSC Financial's and Pinnacle Bank's separate corporate existences will cease and the banking offices of Pinnacle Bank will be renamed as Carolina Alliance branches. The merger agreement is attached as Appendix A and is incorporated into this joint proxy statement/offering circular by reference. We encourage you to read the merger agreement carefully, as it is the legal document that governs the merger.

What PBSC Financial Shareholders Will Receive in the Merger (page 61)

If the merger is completed, each outstanding share of PBSC Financial common stock will be exchanged for either: (i) $12.00 in cash, (ii) a number of shares of Carolina Alliance common stock equal to the exchange ratio, plus the Additional Cash Amount, if any, or (iii) a combination of cash and shares of Carolina Alliance common stock. Each shareholder of PBSC Financial will have the opportunity to elect the form of merger consideration that he or she prefers, or he or she may choose no preference, in which case the merger consideration to be received by him or her will be determined by the exchange agent depending on the amount of cash and shares elected by those PBSC Financial shareholders who make an express election. Elections by PBSC Financial shareholders are limited by the requirement that 20% of the total number of outstanding non-dissenting shares of PBSC Financial common stock will be exchanged for cash and 80% of the outstanding non-dissenting shares of PBSC Financial common stock will be exchanged for shares Carolina Alliance common stock (although Carolina Alliance has the right, but not the obligation, to allow up to 60% of the consideration to be paid in cash if so elected by PBSC Financial shareholders). If the elections made by PBSC Financial shareholders would result in an oversubscription for either cash or stock, then the exchange agent will prorate the amount of cash and stock to be issued to PBSC Financial shareholders as necessary to satisfy this requirement. Therefore, the form of consideration that a PBSC Financial

shareholder receives will depend in part on the elections of other PBSC Financial shareholders. PBSC Financial shareholders will not receive any fractional shares of Carolina Alliance common stock. Instead, they will be paid cash in an amount equal to the fraction of a share of Carolina Alliance common stock otherwise issuable upon conversion multiplied by $12.00.

After the merger, assuming a Final Carolina Alliance Stock Price of $11.58, which was the closing price of Carolina Alliance common stock on May 1, 2015, and that exactly 20% of the PBSC Financial shares of common stock outstanding elect to receive cash payments, Carolina Alliance's existing shareholders will own approximately 73.6% of Carolina Alliance's total outstanding shares, on a fully diluted basis, and PBSC Financial's shareholders will own approximately 26.4% of Carolina Alliance's outstanding shares, on a fully diluted basis.

Merger Consideration Election (page 62)

Shortly after the effective time of the merger, Carolina Alliance will cause the exchange agent to deliver or mail to PBSC Financial shareholders an election form and instructions for making an election as to the form of consideration preferred to be received in the merger. The available elections, election procedures and deadline for making elections are described under the heading "Proposal No. 1—The Merger—Election of the Form of Payment of the Merger Consideration" on page 62. To be effective, an election form must be properly completed and received by Carolina Alliance's exchange agent no later than 4:00 p.m. local time on the date set forth on the election form sent to PBSC Financial shareholders. If a PBSC Financial shareholder does not make an election by the election deadline, the exchange agent has the discretion to choose the consideration such shareholder will receive.

After the election deadline, the elections made by PBSC Financial shareholders may be adjusted as necessary to ensure that Carolina Alliance pays cash in exchange for 20% of the outstanding non-dissenting shares of PBSC Financial common stock and Carolina Alliance common stock in exchange for 80% of the outstanding non-dissenting shares of PBSC Financial common stock (although Carolina Alliance has the right, but not the obligation, to allow up to 60% of the consideration to be paid in cash if so elected by PBSC Financial shareholders). The merger agreement provides the method, which is described under the heading "Proposal No. 1—The Merger—Allocation of the Merger Consideration" on page 63, for allocating shares of Carolina Alliance common stock and cash to be received for the shares of PBSC Financial common stock, based on the elections made. Accordingly, a PBSC Financial shareholder may receive less cash and more shares of Carolina Alliance common stock, or more shares of Carolina Alliance common stock and less cash, than elected.

Carolina Alliance's Reasons for the Merger (page 43)

Carolina Alliance seeks to merge Pinnacle with and into Carolina Alliance because it believes that the merger would:

- Accelerate Carolina Alliance's stated goals of expanding into the greater Greenville, South Carolina market, which is one of South Carolina's largest and most quickly growing markets;
- Add talented management, employees, and directors to Carolina Alliance's team;
- Provide more opportunities for existing bank employees;
- Increase shares of common stock outstanding to approximately 6,194,277 (assuming exactly 20% of the PBSC Financial shares of common stock outstanding elect to receive cash payments) and increase trading liquidity for Carolina Alliance shareholders;
- Provide greater visibility with bank research analysts;
- Enhance the possibility of raising additional capital when needed;
- Enhance the combined bank's ability to attract and serve larger business clients;
- Generate more retail business for the combined bank from Pinnacle's branch network; and

- Expand the asset base of the bank over which to allocate its fixed costs.

PBSC Financial's Reasons for the Merger (page 44)

PBSC Financial's board of directors considered several factors in determining that the merger with Carolina Alliance is advisable and in the best interests of, PBSC Financial and its shareholders. These factors included the following:

- The value and form of the consideration to be received by PBSC Financial's shareholders relative to the book value and earnings per share of PBSC Financial common stock and the estimated future value of PBSC Financial, as well as data from comparable merger transactions;

- Information concerning the financial condition, results of operations and business prospects of PBSC Financial and of Carolina Alliance;

- The short-term and long-term social and economic effects on the employees, customers, shareholders and other constituents of PBSC Financial and Pinnacle, which the board of directors of PBSC Financial viewed favorably given Carolina Alliance's profile as a South Carolina-based community bank and the ongoing influence that management of PBSC Financial is expected to have following completion of the merger;

- The financial terms of recent business combinations in the financial services industry and a comparison of the multiples of selected combinations with the terms of the proposed transaction with Carolina Alliance;

- A report and opinion presented by PBSC Financial's independent financial advisor as to the fairness, from a financial point of view, of the consideration to be paid to PBSC Financial's shareholders;

- The relative liquidity of the cash and stock consideration to be received by PBSC Financial's shareholders in the merger as compared to the existing liquidity of shares of common stock of PBSC Financial, particularly in view of Carolina Alliance's stock being traded on the OTCQX U.S. Premier Marketplace maintained by OTC Markets Group, Inc.;

- The board of directors' view of Carolina Alliance's ability to produce long-term value for shareholders of PBSC Financial who receive shares of Carolina Alliance common stock in the merger;

- The board of directors' view that the merger represents a continuation of the Company's strategic goal to be a community-based lending organization providing long-term shareholder value;

- The alternatives to the merger, including remaining an independent institution;

- The competitive and regulatory environment for financial institutions generally; and

- The fact that the merger is structured as a tax-free reorganization.

Regulatory Approvals (page 72)

We cannot complete our merger unless we obtain the approval of the South Carolina Board of Financial Institutions and the FDIC. As of the date of this joint proxy statement/offering circular, we have not yet received the required regulatory approvals. Although we expect to obtain the necessary approvals in a timely manner, we cannot be certain when, or if, they will be received.

Carolina Alliance Shareholders' Meeting (page 36)

Carolina Alliance will hold its annual shareholders' meeting on June 29, 2015 at 10:00 a.m., local time at the bank's headquarters at 200 South Church Street, Spartanburg, South Carolina 29306.

Carolina Alliance's Record Date and Voting (page 36)

If you owned shares of Carolina Alliance common stock at the close of business on April 30, 2015, the record date, you are entitled to vote on the merger agreement, as well as any other matters considered at the meeting. On the record date, there were 4,560,660 shares of Carolina Alliance common stock outstanding. You will have one vote at the meeting for each share of Carolina Alliance common stock you owned on the record date. The affirmative vote of the holders of two-thirds of Carolina Alliance's outstanding shares of common stock is required to approve the merger agreement. As of April 30, 2015, Carolina Alliance's current directors, executive officers, and their affiliates beneficially owned or had the right to acquire approximately 28.09% of the outstanding shares of common stock.

Carolina Alliance's Board Recommends Shareholder Approval (page 39)

Carolina Alliance's board of directors believes that the merger is in the best interests of Carolina Alliance and its shareholders and unanimously recommends that the shareholders vote **"FOR"** approval of the Merger Proposal.

PBSC Financial Shareholders' Meeting (page 36)

PBSC Financial will hold its annual shareholders' meeting on June 25, 2015 at 5:30 p.m., local time at the bank's headquarters at 937 North Pleasantburg Drive, Greenville, South Carolina 29607.

PBSC Financial's Record Date and Voting (page 36)

If you owned shares of PBSC Financial common stock at the close of business on April 30, 2015, the record date, you are entitled to vote on the merger agreement as well as any other matters considered at the meeting. On the record date, there were 1,871,872 shares of PBSC Financial common stock outstanding. You will have one vote at the meeting for each share of common stock you owned on the record date. The affirmative vote of a majority of PBSC Financial's outstanding shares of common stock is required to approve the merger agreement. As of April 30, 2015, PBSC Financial's directors and executive officers and their affiliates beneficially owned approximately 17.08% of the outstanding shares of PBSC Financial common stock. Each of PBSC Financial's directors and three of its executive officers, Messrs. Barnett, Stewart and Weaver, have agreed, subject to several conditions, to vote his or her shares of PBSC Financial common stock in favor of the merger agreement.

PBSC Financial's Board Recommends Shareholder Approval (page 39)

PBSC Financial's board of directors believes that the merger is in the best interest of PBSC Financial and its shareholders and unanimously recommends that the shareholders vote **"FOR"** approval of the Merger Proposal.

Interests of Directors and Officers of PBSC Financial that Differ from Your Interests (page 68)

When considering whether to approve the merger agreement, you should be aware that some directors and officers of PBSC Financial have interests in the merger that differ from the interests of other PBSC Financial shareholders, including the following:

- Carolina Alliance and each of Messrs. Barnett, Weaver and Stewart have entered into a new employment agreement which at the effective time of the merger will supersede and replace in its entirety the current employment agreement between each of the executives and PBSC Financial;

- Carolina Alliance will assume Mr. Warren's existing employment agreement with PBSC Financial as of the closing of the merger;

- Carolina Alliance and each of Messrs. Barnett, Weaver and Stewart have entered into retention agreements pursuant to which Carolina Alliance will provide lump sum payments to Messrs. Barnett, Weaver and Stewart at the effective time of the merger in order to assure the continued dedication, efforts and services of the executives with Carolina Alliance;

- Following the merger, Carolina Alliance intends to provide lump sum payments to Messrs. Barnett, Weaver, Stewart and Warren, with whom Pinnacle had entered into Supplemental Executive Retirement Plan Agreements, in exchange for termination of such agreements, regardless of whether the employee remains employed with Carolina Alliance as is currently anticipated;

- Following the merger, Carolina Alliance will generally indemnify and provide liability insurance to the non-continuing directors and officers of Pinnacle, subject to certain exceptions; and

- The following three individuals currently serving on the PBSC Financial board of directors will be appointed to the board of directors of Carolina Alliance following the closing: Richard H. Sumerel, Larry A. Webb and Marshall E. Franklin.

Other than the selection of the three PBSC Financial board members appointed to serve following the merger closing, each board member was aware of these and other interests and considered them before approving and adopting the merger agreement.

Federal Income Tax Consequences (page 65)

PBSC Financial's shareholders generally will not recognize gain or loss for federal income tax purposes on the receipt of shares of Carolina Alliance common stock in the merger in exchange for the shares of PBSC Financial common stock surrendered. PBSC Financial shareholders will be taxed, however, on any cash they receive in the merger. Carolina Alliance shareholders will have no tax consequences as a result of the merger. Tax matters are complicated, and the tax consequences of the merger may vary among PBSC Financial shareholders. We urge each PBSC Financial shareholder to contact his or her own tax advisor to fully understand the tax implications of the merger.

Comparative Rights of PBSC Financial and Carolina Alliance Shareholders (page 82)

The rights of PBSC Financial's shareholders are currently governed by South Carolina banking and corporate law and PBSC Financial's articles of incorporation and bylaws. The rights of Carolina Alliance's shareholders are currently governed by South Carolina banking and corporate law and Carolina Alliance's articles of incorporation and bylaws. Upon consummation of the merger, the shareholders of PBSC Financial will become shareholders of Carolina Alliance and South Carolina banking and corporate law as well as the articles of incorporation and bylaws of Carolina Alliance will govern their rights. Carolina Alliance's articles of incorporation and bylaws differ somewhat from those of PBSC Financial.

Termination of the Merger Agreement and Termination Fee (pages 72 and 73)

The merger agreement may be terminated prior to the closing as follows:

- by unanimous consent of the boards of directors of Carolina Alliance, PBSC Financial and Pinnacle Bank;

- by Carolina Alliance or Pinnacle if any required regulatory approvals for consummation of the merger are not obtained;

- by Carolina Alliance or Pinnacle if PBSC Financial shareholders do not approve the merger agreement and merger;

- by Carolina Alliance or Pinnacle if Carolina Alliance shareholders do not approve the merger agreement and merger;

- by either Carolina Alliance or Pinnacle in the event of a material breach of the representations and warranties or covenants by the other party that has a material adverse effect, and which breach is not cured prior to 30 days following written notice or two business days prior to the termination date, or which breach, by its nature, cannot be cured prior to the closing;

- by either Carolina Alliance or Pinnacle if the merger is not consummated prior to December 31, 2015, unless the failure of the closing to occur by such date is due to a material breach of the merger agreement by the party seeking to terminate the merger agreement;

- by Carolina Alliance if, prior to the PBSC Financial shareholders meeting, (i) PBSC Financial violates the provision prohibiting the solicitation of merger proposal and other alternate transactions from other parties; (ii) PBSC Financial's board of directors fails to recommend approval of the merger to its shareholders (except as permitted for a superior proposal); (iii) PBSC Financial's board shall have recommended, proposed, or publicly announced its intention to recommend or propose, to engage in a transaction with any person or company other than Carolina Alliance; or (iv) PBSC Financial shall have materially breached its obligations to call, give notice of, convene and hold its shareholders meeting to approve the merger;

- by either Carolina Alliance or Pinnacle if there shall have been a suit, demand letter, claim, arbitration, investigation, or the like, commenced or threatened against either party relating to the consummation of the merger or the performance of the merger agreement;

- by Pinnacle if, at any time during the three business days following the Determination Date, the Final Carolina Alliance Stock Price is greater than $15.00; or

- by either Carolina Alliance or Pinnacle if, at any time during the three business days following the Determination Date, the Final Carolina Alliance Stock Price is less than $8.00.

The following termination fees and/or liquidated damages shall be paid in the event of termination:

- Pinnacle shall pay to Carolina Alliance a termination fee equal to $1,000,000 if (i) PBSC Financial violates the provision prohibiting the solicitation of merger proposal and other alternate transactions from other parties; (ii) PBSC Financial's board of directors fails to recommend approval of the merger to its shareholders (except as permitted for a superior proposal); (iii) PBSC Financial's board shall have recommended, proposed, or publicly announced its intention to recommend or propose, to engage in a transaction with any person or company other than Carolina Alliance; or (iv) PBSC Financial shall have materially breached its obligations to call, give notice of, convene and hold its shareholders meeting to approve the merger.

- If either party terminates the merger agreement by reason of the other party's material breach of its representations, warranties and/or covenants in the merger agreement, the parties agree that the party in breach shall pay $300,000 as liquidated damages to the non-breaching party, except in the case of an intentional breach.

Dissenters' Rights (page 77)

South Carolina law permits PBSC Financial's shareholders and Carolina Alliance's shareholders to dissent from the approval of the merger agreement and to have the fair value of their shares paid to them in cash. To do this, both PBSC Financial and Carolina Alliance shareholders must follow specific procedures, including filing a written notice with their respective company prior to their company's shareholder vote on the merger agreement. If you follow the required procedures, your only right will be to receive the fair value of your common stock in cash. A copy of the applicable South Carolina statutes is attached to this document as Appendix B.

Accounting Treatment (page 77)

The merger will be accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the assets and liabilities of Pinnacle as of the effective time will be recorded at their respective fair values and added to those of Carolina Alliance.

Market Prices of Carolina Alliance and PBSC Financial Common Stock; Dividend Payments

The following table sets forth the closing sales prices per share of Carolina Alliance common stock on March 20, 2015, the last trading day prior to the public announcement of the merger agreement, and on May 1,

2015, the latest practicable date prior to the mailing of this joint proxy statement/offering circular, as well as the equivalent per share value (see footnote 1 below the table) of PBSC Financial common stock on those dates. The common stock of Carolina Alliance is quoted on the OTCQX under the symbol "CRLN." The market for Carolina Alliance's common stock must be characterized as a limited market due to its relatively low trading volume and lack of significant analyst coverage. The following closing sales prices reflect inter-dealer prices without retail mark-up, mark-down, or commissions and may not necessarily represent actual transactions.

	Carolina Alliance Common Stock	Equivalent Price Per Share of PBSC Financial Common Stock (1)
March 20, 2015	$11.99	$13.08
May 1, 2015	$11.58	$12.63

(1) The equivalent prices per share of PBSC Financial common stock have been calculated by multiplying an exchange ratio of 1.0909 by the closing price of Carolina Alliance common stock on that date. The exchange ratio will be 1.0909 if the Final Carolina Alliance Stock Price is at or below $12.65. If the Final Carolina Alliance Stock Price is above $12.65, the exchange ratio will be equal to $13.80 divided by the Final Carolina Alliance Stock Price. If the Final Carolina Alliance Stock Price is below $9.35, then each share of PBSC Financial common stock eligible to receive the stock consideration will be exchanged for 1.0909 shares of Carolina Alliance common stock plus the Additional Cash Amount. The book value per share of the PBSC Financial common stock was $10.73 on March 31, 2015.

Carolina Alliance common stock was held by approximately 195 shareholders of record as of May 1, 2015. Such numbers of shareholders do not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others. PBSC Financial common stock was held by 173 shareholders of record as of May 1, 2015. **Because the exchange ratio is fixed if the Final Carolina Alliance Stock Price is at or below $12.65 (subject to potential adjustment provisions if the Final Carolina Alliance Stock Price is above $12.65 and termination provisions if the Final Carolina Alliance Stock Price is greater than $15.00 or below $8.00) and because the market price of Carolina Alliance common stock is subject to fluctuation, the market value of the shares of Carolina Alliance common stock that you may receive in the merger may increase or decrease prior to and following the merger. You are urged to obtain current market quotations for Carolina Alliance common stock.**

There is neither an established public trading market for shares of PBSC Financial common stock nor are there any uniformly quoted prices for such shares. There are, however, occasional transactions in PBSC Financial common stock as a result of private negotiations. Management of PBSC Financial does not maintain a record of the sales prices of trades of PBSC Financial common stock. The last known transaction in PBSC Financial common stock was a privately negotiated transaction at $10.00 per share on August 25, 2014.

Governance Matters (page 67)

Board of Directors

At the effective time of the merger, the board of directors will consist of the following 15 directors of Carolina Alliance in office immediately prior to the effective time of the merger: Terry L. Cash, W. Louis Bissette, Jr., Carl R. Bartlett, T. Alexander Evins, Marsha H. Gibbs, George M. Groome, John D. Kimberly, Samuel H. Maw, Jr., Susan H. McClinton, D. Byrd Miller III, John S. Poole, W. Allen Rogers, II, R. Lamar Simpson, L. Terrell Sovey and W. Lewis White, Sr., plus three appointees from the board of directors of PBSC Financial. The three appointees will be Richard H. Sumerel, Larry A. Webb and Marshall E. Franklin.

Management

At the effective time of the merger, John Poole, John Kimberly and Lamar Simpson will remain the Chief Executive Officer, the President and the Chief Financial Officer and Chief Operating Officer, respectively, of Carolina Alliance. David Barnett, President and Chief Executive Officer of Pinnacle, will join Carolina Alliance as Executive Vice President and President of the Greenville and South Carolina Western Region. David Weaver, Chief Credit Officer of Pinnacle, will join Carolina Alliance as Executive Vice President and Senior Credit Officer in South Carolina. Jim Stewart, Senior Market Executive of Pinnacle, will join Carolina Alliance as Executive Vice President and Commercial Banking Officer.

RISK FACTORS

If the merger is consummated and you are a PBSC Financial shareholder, you may receive shares of Carolina Alliance common stock in exchange for your shares of PBSC Financial common stock. An investment in Carolina Alliance common stock is subject to a number of risks and uncertainties, many of which also apply to your existing investment in PBSC Financial common stock. Risks and uncertainties relating to general economic conditions are not summarized below. Those risks, among others, are highlighted on page 34 under the heading "Cautionary Statement Regarding Forward-Looking Statements."

There are a number of other risks and uncertainties relating to Carolina Alliance that you should consider in deciding how to vote on the merger in addition to the risks and uncertainties associated with financial institutions generally. Many of these risks and uncertainties could affect Carolina Alliance's future financial results and may cause Carolina Alliance's future earnings and financial condition to be less favorable than Carolina Alliance's expectations. There are also a number of risks related to the merger that shareholders of both Carolina Alliance and PBSC Financial should consider in deciding how to vote on the merger. This section summarizes those risks.

Risks Related to the Merger

Carolina Alliance and PBSC Financial shareholders will experience a reduction in percentage ownership and voting power of their shares as a result of the merger.

Carolina Alliance shareholders and PBSC Financial shareholders will experience a reduction in their respective percentage ownership interests and effective voting power relative to their respective percentage ownership interests in Carolina Alliance and PBSC Financial compared to their ownership interests and voting power prior to the merger. If the merger is consummated, assuming exactly 20% of the PBSC Financial shares of common stock outstanding elect to receive cash payments, current Carolina Alliance shareholders will own approximately 73.6% of Carolina Alliance's outstanding common stock, on a fully diluted basis, and current PBSC Financial shareholders will own approximately 26.1% of Carolina Alliance's outstanding common stock, on a fully diluted basis.

Because the market price of Carolina Alliance common stock will fluctuate, PBSC Financial shareholders cannot be sure of the number of shares or exact value of shares of Carolina Alliance common stock they will receive.

Upon completion of the merger, each outstanding share of PBSC Financial common stock will be converted into the merger consideration consisting of cash, shares of Carolina Alliance common stock, or a combination of cash and shares of Carolina Alliance common stock, as provided in the merger agreement. If a PBSC Financial shareholder receives only cash as merger consideration, the value of the merger consideration that such PBSC Financial shareholder receives will be independent of any fluctuations in the market price of Carolina Alliance common stock. If a PBSC Financial shareholder receives Carolina Alliance common stock as part or all of the merger consideration, the number of shares that such PBSC Financial shareholder will receive for each share of Carolina Alliance common stock will depend on the volume weighted average price (rounded up to the nearest cent) of Carolina Alliance's common stock on the OTCQX during the 20 consecutive trading days ending on the fifth business day immediately prior to the effective time of the merger.

The value of such shares of Carolina Alliance common stock received for each share of PBSC Financial common stock will depend on the price per share of Carolina Alliance common stock at the time the shares are actually received by a PBSC Financial shareholder. The closing price of Carolina Alliance common stock on the date that the shareholder actually receives the shares of such stock after the merger is completed and the volume weighted average price (rounded up to the nearest cent) of Carolina Alliance's common stock on the OTCQX during the 20 consecutive trading days ending on the fifth business day immediately prior to the effective time of the merger may vary from each other, as well as from the closing price of Carolina Alliance common stock on the date that Carolina Alliance and Pinnacle announced the merger, on the date that this joint proxy statement/offering circular is being mailed to Carolina Alliance and PBSC Financial shareholders, and on the date of the annual shareholders' meetings. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in Carolina Alliance's business, operations and prospects, and regulatory considerations, among other things. Many of these factors are beyond the control of Carolina Alliance.

Accordingly, at the time of the PBSC Financial annual shareholders meeting, because of the impacts of the varying market value of Carolina Alliance's common stock on the exchange ratio, PBSC Financial shareholders will not be able to calculate the number of shares of Carolina Alliance common stock they may receive upon completion of the merger or the exact value of Carolina Alliance common stock they may receive upon completion of the merger.

The form of merger consideration PBSC Financial shareholders ultimately receive could be different from the form elected based on the form of merger consideration elected by other PBSC Financial shareholders.

All PBSC Financial shareholders will be permitted to make an election as to the form of consideration to receive. Because the total amount of Carolina Alliance common stock and cash to be issued in the merger is fixed, the exchange agent will be allowed, subject to limitations set forth in the merger agreement, to adjust the form of consideration that a PBSC Financial shareholder will receive in order to ensure that 20% of the outstanding non-dissenting shares of PBSC Financial common stock are converted into cash and 80% of the outstanding non-dissenting shares of PBSC Financial common stock are converted into shares of Carolina Alliance common stock (subject to Carolina Alliance's right, but not obligation, to allow up to 60% of the consideration to be paid in cash if so elected by PBSC Financial shareholders). Consequently, if either the stock consideration or the cash consideration is oversubscribed, PBSC Financial shareholders could receive a different form of consideration from the form they elect.

Combining the two banks may be more difficult, costly, or time consuming than we expect.

Carolina Alliance and Pinnacle have operated and, until completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees or disruption of each institution's ongoing business or inconsistencies in standards, procedures, and policies that would adversely affect the combined bank's ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger. If the combined bank has difficulties with the integration process, it might not achieve the economic benefits expected to result from the acquisition. As with any merger of banking institutions, there also may be business disruption that causes Carolina Alliance or Pinnacle to lose customers or to cause customers to take their deposits or move their loans out of our banks and move their business to other financial institutions.

The banks may not receive regulatory approvals or such approvals may take longer than expected or impose conditions the banks do not presently anticipate.

The merger must be approved by the South Carolina Board of Financial Institutions and the FDIC. These regulatory agencies will consider, among other things, the competitive impact of the merger, our financial and managerial resources and the convenience and needs of the communities to be served. As part of that consideration, we expect that the South Carolina Board of Financial Institutions and the FDIC will review the capital position, safety and soundness, legal and regulatory compliance matters and Community Reinvestment Act matters. There can be no assurance as to whether these approvals will be received, the timing of those approvals, or whether any conditions will be imposed that might limit the combined bank's ability to do business after the merger as it presently anticipates.

The merger agreement limits Pinnacle's ability to pursue alternatives to the merger.

The merger agreement contains provisions that limit Pinnacle's ability to discuss competing third party proposals to acquire all or a significant part of Pinnacle. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Pinnacle from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share price than that proposed in the merger with Carolina Alliance, or might result in a potential competing acquirer proposing to pay a lower per share price to acquire Pinnacle than it might otherwise have proposed to pay.

There is no existing market for Carolina Alliance common stock.

Although Carolina Alliance's common stock is quoted on the OTCQX, the trading markets on the OTCQX lack the depth, liquidity, and orderliness necessary to maintain a liquid market. The OTCQX prices are quotations, which reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual

transactions. Carolina Alliance has no current plans to seek listing on any stock exchange, and Carolina Alliance does not expect to qualify for listing on NASDAQ or any other exchange for the foreseeable future.

The development of a public trading market depends upon the existence of willing buyers and sellers, the presence of which is not within the control of Carolina Alliance. Accordingly, PBSC Financial shareholders should consider the potential illiquid and long-term nature of an investment in Carolina Alliance common stock. Even though the Carolina Alliance shareholder base may increase as a result of the merger, there can be no assurance that an active and liquid trading market for Carolina Alliance will develop, or once developed, will continue, nor any assurance that PBSC Financial shareholders will be able to sell their shares at or above the exchange ratio following the merger.

The shares of Carolina Alliance common stock to be received by PBSC Financial shareholders as a result of the merger will have different rights from the shares of PBSC Financial common stock.

Upon completion of the merger, PBSC Financial shareholders will become Carolina Alliance shareholders and their rights as shareholders will be governed by South Carolina law and the Carolina Alliance articles of incorporation and bylaws. The rights associated with PBSC Financial common stock are different from the rights associated with Carolina Alliance common stock. Please see "Comparative Rights of PBSC Financial and Carolina Alliance Shareholders" beginning on page 82 for a discussion of the different rights associated with Carolina Alliance common stock.

Carolina Alliance and Pinnacle will incur significant transaction and integration costs in connection with the merger.

Carolina Alliance and Pinnacle expect to incur significant costs associated with completing the merger and integrating the operations of the two banks. Carolina Alliance and Pinnacle are continuing to assess the impact of these costs. Although Carolina Alliance and Pinnacle believe that the elimination of duplicate costs, as well as the realization of other efficiencies related to the integration of their businesses, will offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

The opinions obtained by Carolina Alliance and PBSC Financial from their respective financial advisors will not reflect changes in circumstances between signing the merger agreement and closing of the merger.

Neither Carolina Alliance nor PBSC Financial has obtained an updated opinion from their respective financial advisor as of the date of this joint proxy statement/offering circular. Changes in the operations and prospects of Carolina Alliance or Pinnacle, general market and economic conditions and other factors that may be beyond the control of Carolina Alliance and Pinnacle, and on which the opinions were based, may significantly alter the value of Carolina Alliance or Pinnacle or the prices of shares of Carolina Alliance common stock or PBSC Financial common stock by the time the merger is completed. The opinions do not speak as of the time the merger will be completed or as of any date other than the date of such opinions. Because neither Carolina Alliance nor PBSC Financial currently anticipates asking for an updated opinion, the opinions will not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed. For a description of the opinion Carolina Alliance received from its financial advisor, see "Proposal No. 1 - The Merger — Opinion of Carolina Alliance's Financial Advisor." For a description of the opinion that PBSC Financial received from its financial advisor, see "Proposal No. 1 — The Merger — Opinion of PBSC Financial's Financial Advisor." For a description of the other factors considered by the boards of directors of Carolina Alliance and PBSC Financial in determining to approve the Merger, see "Proposal No. 1 — The Merger — Carolina Alliance's Reasons for the Merger" and "Proposal No. 1 — The Merger — PBSC Financial's Reasons for the Merger."

Pinnacle directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of PBSC Financial shareholders.

Executive officers of Pinnacle negotiated the terms of the merger agreement with their counterparts at Carolina Alliance, and the PBSC Financial board of directors and the Pinnacle Bank board of directors adopted and approved the merger agreement and the PBSC Financial board of directors recommended that PBSC Financial shareholders vote to approve the merger agreement on substantially the terms set forth in the merger agreement. In

considering these facts and the other information contained in this joint proxy statement/offering circular, you should be aware that Pinnacle's directors and executive officers have financial interests in the merger that are different from, or in addition to, the interests of PBSC Financial shareholders. For example, Carolina Alliance intends to enter into retention agreements and provide lump sum payments to Messrs. Barnett, Weaver and Stewart in order to assure the continued dedication, efforts and services of the executives with Carolina Alliance following the completion of the merger. These and some other additional interests of Pinnacle directors and executive officers may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it, as a shareholder. See "Proposal No. 1 — The Merger —Interests of Employees and Directors of Pinnacle in the Merger" for information about these financial interests.

If the merger does not constitute a reorganization under Section 368(a) of the Internal Revenue Code, then PBSC Financial shareholders may be responsible for payment of U.S. income taxes related to the merger.

The IRS may determine that the merger does not qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended. In that case, each PBSC Financial shareholder would recognize a gain or loss equal to the difference between the fair market value of the Carolina Alliance common stock received by the shareholder in the merger, and the shareholder's adjusted tax basis in the shares of PBSC Financial common stock exchanged therefor.

The merger will not be completed unless important conditions are satisfied.

Specified conditions set forth in the merger agreement must be satisfied or waived to complete the merger. If the conditions are not satisfied or waived, the merger will not occur or will be delayed and each of Carolina Alliance and Pinnacle may lose some or all of the intended benefits of the merger. The following conditions, in addition to other customary closing conditions (which are described in greater detail beginning on page 71), must be satisfied or, with respect to conditions other than shareholder and regulatory approval, waived, if permissible, before Carolina Alliance and Pinnacle are obligated to complete the merger:

- PBSC Financial and Carolina Alliance shareholders must have approved the merger agreement;

- The required regulatory approvals must have been received, generally without any conditions or requirements which would, in the reasonable judgment of the board of directors of Carolina Alliance and the respective boards of directors of PBSC Financial and Pinnacle Bank, materially adversely affect the economic or business benefits of the transactions contemplated by the merger agreement such that, had Carolina Alliance and Pinnacle known about such condition or requirement, they would not have entered into the merger agreement; and

- No court or regulatory authority may have taken any action which prohibits, restricts, or makes illegal the consummation of the transactions contemplated by the merger agreement.

The merger may distract management of Carolina Alliance and Pinnacle from their other responsibilities.

The merger could cause the respective management groups of Carolina Alliance and Pinnacle to focus their time and energies on matters related to the transaction that otherwise would be directed to their business and operations. Any such distraction on the part of either bank's management, if significant, could affect its ability to fully realize the expected financial benefits from this transaction if the merger agreement is approved and the merger takes place.

Risks Related to the Combined Bank

Significant risks accompany the recent and continued expansion of Carolina Alliance.

Carolina Alliance has recently expanded into new markets in Seneca and Anderson, South Carolina and in Charlotte, Asheville and Hendersonville, North Carolina. It will likely continue to grow by opening new branches or loan production offices and through acquisitions, although no acquisition other than the combination with Pinnacle is currently being contemplated. Such expansion could place a strain on the combined bank's resources,

systems, operations, and cash flow. The combined bank's ability to manage this expansion will depend on its ability to monitor operations and control costs, maintain effective quality controls, expand its internal management and technical and accounting systems and otherwise successfully integrate new branches and acquired businesses. If it has difficulties in doing so, the combined bank's business, financial condition, and operating results will be negatively impacted. Because the combined bank may continue to grow by opening new branches or loan production offices and acquiring banks or branches of other banks that it believes provide a strategic fit with its business, the combined bank cannot assure you that it will be able to adequately or profitably manage this growth. Risks associated with acquisition activity include the following:

- difficulties and expense associated with identifying and evaluating potential acquisitions and merger partners;
- inaccuracies in estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- the combined bank's ability to finance an acquisition;
- the diversion of management's attention to negotiate a transaction and integrate the operations and personnel of an acquired business;
- the combined bank's lack of experience in markets into which the combined bank may enter;
- difficulties and expense in integrating the operations and personnel of the combined businesses;
- loss of key employees and customers as a result of an acquisition that is poorly received; and
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on the combined bank's results of operations.

Also, the combined bank may issue equity securities, including common stock, and securities convertible into shares of the combined bank's common stock in connection with future acquisitions, which could cause ownership and economic dilution to the then current shareholders of Carolina Alliance.

The combined bank's decisions regarding credit risk may materially and adversely affect its business.

Making loans and other extensions of credit will be an essential element of the combined bank's business. Although the combined bank will seek to mitigate risks inherent in lending by adhering to specific underwriting practices, it may incur losses on loans that meet its underwriting criteria, and these losses may exceed its loan loss reserves. The risk of nonpayment is affected by a number of factors, including:

- the duration of the credit;
- credit risks of a particular customer;
- changes in economic and industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

While Carolina Alliance generally underwrites the loans in its portfolio in accordance with its own internal underwriting guidelines and regulatory supervisory limits, in certain circumstances Carolina Alliance has made loans that exceed either its internal underwriting guidelines, supervisory limits, or both. As of December 31, 2014, approximately $9.5 million, or approximately 3.0%, of its gross loans had loan-to-value ratios that exceeded regulatory supervisory limits. Carolina Alliance generally considers making such loans only after taking into account the financial strength of the borrower. The number of loans in the combined bank's portfolio with loan-to-value ratios in excess of supervisory limits, the combined bank's internal guidelines, or both, could increase the risk of delinquencies or defaults in the combined bank's portfolio. Any such delinquencies or defaults could have an adverse effect on the combined bank's results of operations and financial condition.

The combined bank will have a concentration of credit exposure in commercial real estate and a downturn in commercial real estate could adversely affect its business, financial condition, and results of operations.

As of December 31, 2014, on a pro forma basis, the combined bank had approximately $260.6 million in loans outstanding to borrowers with commercial real estate, representing approximately 59.5% of its total loans outstanding as of that date. The real estate consists primarily of owner-occupied properties, warehouse and other commercial properties. These types of loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the owner's business or the property to service the debt. Cash flows may be affected significantly by general economic conditions, and a downturn in the local economy or in occupancy rates in the local economy where the property is located could increase the likelihood of default. Because the combined bank's loan portfolio will contain a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in its level of non-performing loans. An increase in non-performing loans may result in a loss of earnings from these loans, an increase in the related provision for loan and lease losses and an increase in charge-offs, all of which could have a material adverse effect on the combined bank's financial condition and results of operations.

Since its inception in January 2007, Carolina Alliance's commercial real estate loans have grown to $197.0 million, or 62.5% of its loan portfolio. The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures.

A downturn in the real estate market in the combined bank's market areas could adversely affect the combined bank's profitability and financial condition.

While economic conditions and real estate in the combined bank's primary markets of South Carolina and North Carolina have shown signs of improvement, there can be no assurance that this improvement will continue or that the combined bank's local markets will not experience another economic decline. A downturn in the real estate market could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of the combined bank's collateral and its ability to sell the collateral upon foreclosure. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it is also more likely that the combined bank would be required to increase its allowance for loan losses. If during a period of reduced real estate values the combined bank is required to liquidate the property collateralizing a loan to satisfy the debt or to increase the allowance for loan losses, it could materially reduce the combined bank's profitability and adversely affect the bank's financial condition. Although the combined bank will closely monitor and manage risk concentrations and will utilize various portfolio management practices, the combined bank's loan portfolio will contain a number of real estate loans with relatively large balances. The deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, and an increase in overall nonperforming loans could result in a net loss of earnings, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the combined bank's financial condition and results of operations.

The success of the combined bank's growth strategy depends on its ability to identify and retain individuals with experience and relationships in the markets in which it intends to expand.

The combined bank intends to expand its banking network over the next several years, not just in Carolina Alliance's current market areas of Spartanburg, Seneca and Anderson, South Carolina and Charlotte, Asheville and Hendersonville, North Carolina, as well as Pinnacle's current market areas of Greenville, Powdersville, and Easley, South Carolina, but also in other fast-growing markets throughout South Carolina and North Carolina. The combined bank believes that to expand into new markets successfully, it must identify and retain experienced key management members with local expertise and relationships in these markets. The combined bank expects that competition for qualified management in the markets in which it expands will be intense and that there will be a limited number of qualified persons with knowledge of and experience in the community banking industry in these markets. Even if the combined bank identifies individuals that it believes could assist in establishing a presence in a

new market, the combined bank may be unable to recruit these individuals away from more established banks. Many experienced banking professionals employed by its competitors are covered by agreements not to compete or solicit their existing customers if they were to leave their current employment. These agreements make the recruitment of these professionals more difficult. The market for highly qualified banking professionals is competitive, and the combined bank cannot assure you that it will be successful in attracting, hiring, motivating or retaining them, which could negatively impact growth.

In addition, the process of identifying and recruiting individuals with the combination of skills and attributes required to carry out its strategy is often lengthy. The combined bank's inability to identify, recruit, and retain talented personnel to manage new branches effectively and in a timely manner would limit its growth and could materially adversely affect its business, financial condition, and results of operations.

The combined bank will depend on key individuals, and the unexpected loss of one or more of these key individuals could curtail its growth and adversely affect its prospects.

John Poole, Carolina Alliance's Chief Executive Officer, has substantial experience with its operations and has contributed significantly to its growth since Carolina Alliance's founding. If it were to lose Mr. Poole's services, he would be difficult to replace and its business and development could be materially and adversely affected. Carolina Alliance's success is dependent on the personal contacts and local experience of Mr. Poole and other key management personnel in each of its market areas. Carolina Alliance's success also depends on its continued ability to attract and retain experienced loan originators, as well as its ability to retain current key executive management personnel, including the President, John Kimberly, and the Chief Financial Officer and Chief Operating Officer, Lamar Simpson. Carolina Alliance has previously entered into employment agreements with Mr. Poole, Mr. Kimberly and Mr. Simpson. The existence of such agreements, however, does not necessarily assure that it will be able to continue to retain their services. Following the consummation of the merger, John Poole will continue to serve as the Chief Executive Officer, John Kimberly will continue to serve as the President and Lamar Simpson will continue to serve as Chief Financial Officer and Chief Operating Officer of the combined bank. The combined bank also intends to enter into employment agreements with David Barnett, the current President and Chief Executive Officer of Pinnacle Bank (who will serve as Executive Vice President and President of the Greenville and South Carolina Western Region of the combined bank), David Weaver, the current Chief Credit Officer of Pinnacle (who will serve as Executive Vice President and Senior Credit Officer in South Carolina of the combined bank), and Jim Stewart, the current Senior Market Executive of Pinnacle (who will serve as Executive Vice President and Commercial Banking Officer of the combined bank). The unexpected loss of any of these key personnel could adversely affect its growth strategy and prospects to the extent the combined bank is unable to replace such personnel.

The combined bank's business strategy will include the continuation and successful management of significant growth, and if it fails to grow or fails to manage its growth effectively as it pursues this strategy, this failure could negatively affect the combined bank's business, financial condition, and results of operations.

The combined bank intends to continue developing its business by pursuing a significant growth strategy primarily centered around a branching strategy. The combined bank's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. In order to execute its growth strategy successfully, the combined bank must, among other things, continue its loan growth, improve its profitability and utilize technology to enhance customer service and maximize deposit growth. In addition, the combined bank's ability to successfully grow will depend on the continued availability of desirable business opportunities, its ability to attract and retain highly qualified employees, and the competitive responses from other financial institutions in its markets. If the combined bank is unable to hire additional employees or if the combined bank is unable to retain its current employees, its staffing levels will be insufficient to support the planned growth, and the combined bank's business, financial condition, and results of operations would be adversely affected.

In addition, the combined bank may not be able to expand its market presence in its existing markets or successfully enter new markets or guarantee that any such expansion will not adversely affect its results of operations. Failure to manage its growth effectively could have a material adverse effect on its business, future prospects, financial condition and results of operations, and could adversely affect its ability to successfully

implement its business strategy. Also, if its growth occurs more slowly than anticipated or declines, its operating results could be materially adversely affected.

The building of market share through the combined bank's de novo branching strategy could cause its expenses to increase faster than its revenues.

The combined bank intends to continue to build market share through Carolina Alliance's de novo branching strategy in addition to its acquisition strategy. Carolina Alliance opened a new branch in Seneca, South Carolina in November 2013 and a new branch in Anderson, South Carolina in June 2014. The combined bank may identify other opportunities to open new branches, and there are considerable costs involved in opening branches. New branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least one year or more. Accordingly, the combined bank's new branches can be expected to negatively impact its earnings for some period of time until they reach certain economies of scale. The combined bank's expenses could be further increased if it encounters delays in the opening of any of its new branches. In addition, it may be unable to open any additional branches and, if it does open these branches, they may not be profitable.

The combined bank will face risks with respect to future expansion.

The combined bank's strategy will be to increase the size of its franchise by expanding into new markets or lines of business and offering new products or services by aggressively pursuing business development opportunities. These activities involve a number of risks, including:

- taking additional time and creating expense associated with evaluating new markets for expansion, hiring experienced local management, and opening new branches, as there may be a substantial time lag between these activities before the combined bank generates sufficient assets and deposits to support the costs of the expansion;

- taking a significant amount of time negotiating a transaction or working on expansion plans, resulting in the diversion of management's attention from the operation of its existing business;

- creating an adverse short-term effect on its results of operations; and

- investing time and expense of evaluating, selecting, and introducing new products and services into its business.

The combined bank may not be successful in overcoming these risks or other problems encountered in connection with expansion activities and it can give no assurance that such expansion will result in the level of profits the combined bank seeks. Its inability to overcome these risks could have a material adverse effect on the combined bank's ability to achieve its business strategy and on its financial condition and results of operations.

The lack of seasoning of Carolina Alliance's loan portfolio makes it difficult to assess the adequacy of its loan loss reserves accurately.

The combined bank will attempt to maintain an appropriate allowance for loan losses to provide for losses inherent in its loan portfolio. The combined bank will periodically determine the amount of the allowance based on consideration of several factors, including:

- an ongoing review of the quality, mix, and size of its overall loan portfolio;

- its historical loan loss experience;

- evaluation of economic conditions;

- regular reviews of loan delinquencies and loan portfolio quality; and

- the amount and quality of collateral, including guarantees, securing the loans.

However, there is no precise method of estimating credit losses, since any estimate of loan losses is necessarily subjective and the accuracy depends on the outcome of future events. In addition, due to Carolina Alliance's rapid growth over the past several years and its limited operating history, a large portion of the loans in its loan portfolio was originated recently. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as seasoning. As a result, a portfolio of more mature loans will usually behave more predictably than a newer portfolio. Because Carolina Alliance's loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If charge-offs in future periods increase, the combined bank may be required to increase its provisions for loan losses, which would decrease its net income and possibly its capital.

Although Carolina Alliance believes the allowance for loan losses is a reasonable estimate of known and inherent losses in its loan portfolio, it cannot fully predict such losses or that its loan loss allowance will be adequate in the future. Excessive loan losses could have a material impact on its financial performance. Consistent with its loan loss reserve methodology, Carolina Alliance expects to make additions to its loan loss reserve levels as a result of its loan growth, which may affect its short-term earnings.

Federal regulators periodically review Carolina Alliance's allowance for loan losses and may require it to increase its provision for loan losses or recognize further loan charge-offs, based on judgments different than those of its management. Any increase in the amount of its provision or loans charged-off as required by these regulatory agencies could have a negative effect on its operating results.

The combined bank could sustain losses from a decline in credit quality.

The combined bank's earnings will be significantly affected by its ability to properly originate, underwrite and service loans. The combined bank could sustain losses if borrowers, guarantors, or related parties fail to perform in accordance with the terms of their loans or if the combined bank fails to detect or respond to deterioration in asset quality in a timely manner. Problems with credit quality or asset quality could cause its interest income and net interest margin to decrease and its provisions for loan losses to increase, which could adversely affect the combined bank's business, financial condition, and results of operations.

The combined bank will depend on the accuracy and completeness of information about clients and counterparties and its financial condition could be adversely affected if it relies on misleading information.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, the combined bank may rely on information furnished to it by or on behalf of clients and counterparties, including financial statements and other financial information, which the combined bank does not independently verify. The combined bank also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, the combined bank may assume that a customer's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. The combined bank's financial condition and results of operations could be negatively affected to the extent it relies on financial statements that do not comply with GAAP or are materially misleading.

Changes in interest rates and the combined bank's ability to successfully manage interest rates may reduce its profitability.

The combined bank's profitability depends in large part on its net interest income, which is the difference between interest income from its interest-earning assets, such as loans and investment securities, and interest expense on its interest-bearing liabilities, such as deposits and borrowings. The combined bank believes that it will be liability sensitive over a one-year time frame, which means that its net interest income will generally rise in lower interest rate environments and decline in higher interest rate environments. The combined bank's net interest income may be adversely affected if the market interest rate changes such that the interest it pays on deposits and borrowings increases faster than the interest it earns on loans and investments. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While the combined bank intends to manage the effects of changes in interest rates by adjusting the

terms, maturities, and pricing of its assets and liabilities, its efforts may not be effective, which could adversely affect its financial condition and results of operations. In addition, there are costs associated with its risk management techniques, and these costs could be material.

Because of the differences in maturities and repricing characteristics of its interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Fluctuations in interest rates are not predictable or controllable and therefore, there can be no assurances of the combined bank's ability to continue to maintain a consistent positive spread between the interest earned on its interest-earning assets and the interest paid on its interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect its net interest income and, in turn, its profitability. In addition, loan volumes are affected by market interest rates on loans. Rising interest rates generally are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates will generally decline and in falling interest rate environments, loan repayment rates will likely increase. Interest rates also affect how much money the combined bank can lend. When interest rates rise, the cost of borrowing increases. Accordingly, changes in market interest rates could materially and adversely affect the combined bank's net interest income, asset quality, and loan origination volume.

The combined bank's small- to medium-sized business target markets may have fewer financial resources to weather a downturn in the economy.

The combined bank will target the banking and financial services needs of small- and medium-sized businesses. These businesses generally have fewer financial resources in terms of capital and borrowing capacity than larger entities. If general economic conditions negatively impact these businesses in the markets in which the combined bank operates, its business, financial condition, and results of operations may be adversely affected.

An economic downturn, especially one affecting the market areas of Spartanburg, Greenville, Easley, Seneca and Anderson, South Carolina, or Charlotte, Asheville and Hendersonville, North Carolina, could reduce the combined bank's customer base, its level of deposits, and its demand for financial products such as loans.

The combined bank's success significantly depends upon the general economic conditions in its markets. If the communities in which it operates do not grow or if prevailing economic conditions locally or nationally are unfavorable, its business may not succeed. An economic downturn would likely contribute to the deterioration of the quality of its loan portfolio and reduce its level of deposits, which in turn would hurt its business. Interest received on loans and finance leases represented approximately 91.5% of the combined bank's interest income on a pro forma basis for the year ended December 31, 2014. While economic conditions and real estate in the combined bank's local markets in South Carolina and North Carolina have shown signs of improvement, there can be no assurance that this improvement will continue or that such markets will not experience another economic decline. If an economic downturn occurs in the economy as a whole, or in the combined bank's local markets in South Carolina or North Carolina, borrowers may be less likely to repay their loans as scheduled.

Moreover, the value and liquidity of real estate or other collateral that may secure the combined bank's loans in its market areas could be adversely affected by an economic downturn. If the value of real estate decreases, the combined bank's business could be adversely affected. Unlike many larger institutions, the combined bank will not be able to spread the risks of unfavorable local economic conditions across a large number of diversified economies or markets. The combined bank will often secure loans with real estate collateral. As of December 31, 2014, on a pro forma basis, approximately 83.7% of the combined bank's loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If the combined bank is required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, its business, financial condition, and results of operations could be negatively affected. A general economic downturn, including a decline in the real estate market, could, therefore, result in losses that materially and adversely affect the combined bank's business.

The combined bank may have higher loan losses than is allowed for in its allowance for loan and lease losses.

The combined bank's loan and lease losses could exceed its allowance for loan and lease losses. In addition, the combined bank's average loan size may continue to increase and reliance on historic allowance for loan losses may not be adequate. As of December 31, 2014, on a pro forma basis, approximately 80.2% of the combined bank's loan portfolio is composed of construction, commercial mortgage and commercial loans. Repayment of such loans is generally considered more subject to market risk than repayment of one-to-four family residential mortgage loans. Industry experience shows that a portion of loans will become delinquent and a portion of loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond the combined bank's control, including among other things, changes in market conditions affecting the value of loan collateral and problems affecting the credit of the combined bank's borrowers.

Carolina Alliance's recent operating results may not be indicative of the combined bank's future operating results.

The combined bank may not be able to sustain Carolina Alliance's historical rate of growth or even grow its business at all. Because of its relatively small size and short operating history, it will be difficult for the combined bank to replicate Carolina Alliance's historical earnings growth as it continues to expand. Consequently, Carolina Alliance's historical results of operations will not necessarily be indicative of the combined bank's future operations. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede its ability to expand market presence. If the combined bank experiences a significant decrease from Carolina Alliance's historical rate of growth, the combined bank's business, financial condition, and results of operations may be adversely affected because a high percentage of operating costs are fixed expenses and would not experience a proportionate decrease.

Liquidity needs could adversely affect the combined bank's financial condition and results of operations.

While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability.

Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to customers on alternative investments and general economic conditions. Accordingly, the combined bank may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include proceeds from Federal Home Loan Bank advances, sales of investment securities and loans, and federal funds lines of credit from correspondent banks, as well as out-of-market time deposits. While the combined bank believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if the combined bank continues to grow and experience increasing loan demand. The combined bank may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

The combined bank will be subject to extensive regulation that could limit or restrict its activities.

The combined bank will operate in a highly regulated industry and will be subject to examination, supervision, and comprehensive regulation by the South Carolina State Board of Financial Institutions and the FDIC. Compliance with these regulations is costly and has an impact on certain activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of branches. The combined bank must also meet regulatory capital requirements. If it fails to meet these capital and other regulatory requirements, the combined bank's financial condition, liquidity, and results of operations would be materially and adversely affected. The combined bank's failure to remain "well capitalized" and "well managed" for regulatory purposes could affect customer confidence, its ability to grow, its cost of funds and FDIC insurance, its ability to pay dividends on its capital stock, and its ability to make acquisitions.

The laws and regulations applicable to the banking industry could change at any time, and the effects of these changes on the combined bank's business and profitability cannot be predicted. For example, new legislation or regulation could limit the manner in which the combined bank conducts its business, including the ability to obtain financing, attract deposits, make loans and expand its business through opening new branch offices. Many of these regulations are intended to protect depositors, the public, and the FDIC, not shareholders. In addition, the burden imposed by these regulations may place the combined bank at a competitive disadvantage compared to competitors who are less regulated. The laws, regulations, interpretations, and enforcement policies that apply to the combined bank have been subject to significant change in recent years, sometimes retroactively applied, and may change significantly in the future. The cost of compliance with these laws and regulations could adversely affect the combined bank's ability to operate profitably. Moreover, as a regulated entity, the combined bank can be requested by regulators to implement changes to its operations. In the past, Carolina Alliance has addressed areas of regulatory concern, including interest rate risk, through the adoption of board resolutions and improved policies and procedures.

The combined bank faces strong competition for customers in its market areas, which could prevent it from obtaining customers and may cause it to pay higher interest rates to attract deposits.

The banking business is highly competitive and the level of competition facing the combined bank may increase further. The combined bank will experience competition in its market areas from commercial banks, savings and loan associations, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in its primary market areas and elsewhere. Competitors that are not depository institutions are generally not subject to the extensive regulations that apply to the combined bank.

The combined bank will compete with these institutions both in attracting deposits and in making loans. In addition, the combined bank has to attract its customer base from other existing financial institutions and from new residents and businesses. Many competitors are well-established, larger financial institutions, such as BB&T, Bank of America, and Wells Fargo, with substantially greater access to capital and other resources. These institutions offer larger lending limits and some services, such as extensive and established branch networks, that the combined bank will not provide. In new markets, the combined bank will also compete against well-established community banks that have developed relationships within the community.

The combined bank's relatively smaller size can be a competitive disadvantage due to the lack of multi-state geographic diversification and the inability to spread marketing costs across a broader market. The combined bank may not be able to compete successfully with other financial institutions in its markets and may have to pay higher interest rates, as it has done in some marketing promotions in the past, to attract deposits, resulting in reduced profitability. In addition to paying higher interest rates to attract deposits, the combined bank may need to find alternative funding sources to fund the growth in its loan portfolio. Regardless, the combined bank's borrowing ability will be limited and it may be put in the position of choosing between slowing the growth of its loan portfolio or contraction in its net interest margin if it must pay higher rates for deposits and borrowings.

The combined bank's growth may require it to raise additional capital that may not be available when it is needed, or at all.

Regulatory authorities will require the combined bank to maintain adequate levels of capital to support its operations. In the future, it may need to raise additional capital to support continued growth. The ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which will be outside the combined bank's control, and on its financial performance. Accordingly, additional capital may not be raised, if and when needed, on terms acceptable to the combined bank, or at all. If it cannot raise additional capital when needed, the combined bank's ability to further expand its operations through internal growth and acquisitions could be materially impaired. In addition, if it issues additional equity capital, its existing shareholders' interests would be diluted.

The combined bank may identify a material weakness or a significant deficiency in its internal control over financial reporting that may adversely affect the combined bank's ability to properly account for non-routine transactions.

Carolina Alliance has grown and expanded, and the combined bank expects to acquire or continue to add businesses and other activities that complement its core retail and commercial banking functions. Such acquisitions or additions frequently involve complex operational and financial reporting issues that can influence management's internal control system. While the combined bank will make every effort to thoroughly understand any new activity or acquired entity's business process and properly integrate it into the bank, the combined bank can give no assurance that it will not encounter operational and financial reporting difficulties impacting its internal control over financial reporting.

A failure in or breach of the combined bank's operational or security systems or infrastructure, or those of the combined bank's third party vendors and other service providers or other third parties, including as a result of cyber attacks, could disrupt the combined bank's businesses, result in the disclosure or misuse of confidential or proprietary information, damage the combined bank's reputation, increase its costs, and cause losses.

The combined bank will rely heavily on communications and information systems to conduct its business. Information security risks for financial institutions such as the combined bank have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, and terrorists, activists, and other external parties. As customer, public, and regulatory expectations regarding operational and information security have increased, the combined bank's operating systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns. The combined bank's business, financial, accounting, and data processing systems, or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond the combined bank's control. For example, there could be electrical or telecommunication outages; natural disasters such as earthquakes, tornadoes, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and as described below, cyber attacks.

As noted above, the combined bank's business will rely on its digital technologies, computer and email systems, software and networks to conduct its operations. Although the combined bank will have information security procedures and controls in place, its technologies, systems, networks, and its customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of the combined bank's or its or other third parties' confidential information. Third parties with whom the combined bank does business or that facilitate the combined bank's business activities, including financial intermediaries, or vendors that provide service or security solutions for the combined bank's operations, and other unaffiliated third parties, including the South Carolina Department of Revenue, which had customer records exposed in a 2012 cyber attack, could also be sources of operational and information security risk to the combined bank, including from breakdowns or failures of their own systems or capacity constraints.

While the combined bank will have disaster recovery and other policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The combined bank's risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of the combined bank's controls, processes, and practices designed to protect its systems, computers, software, data, and networks from attack, damage or unauthorized access will remain a focus for the combined bank. As threats continue to evolve, the combined bank may be required to expend additional resources to continue to modify or enhance its protective measures or to investigate and remediate information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support the combined bank's businesses and clients, or cyber attacks or security breaches of the networks, systems or devices that the combined bank's clients use to access its products and services could result in client attrition, regulatory fines, penalties or intervention, reputation

damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could have a material effect on the combined bank's results of operations or financial condition.

Carolina Alliance has implemented anti-takeover devices that could make it more difficult for another bank to purchase the combined bank, even though such a purchase may increase shareholder value.

In many cases, shareholders might receive a premium for their shares if the combined bank were purchased by another bank. South Carolina law and the combined bank's articles of incorporation and bylaws will make it difficult for anyone to purchase the combined bank without the approval of the combined bank's board of directors. For example, the combined bank's articles of incorporation divide the board of directors into three classes of directors serving staggered three-year terms with approximately one-third of the board of directors elected at each annual meeting of shareholders. This classification of directors makes it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders would be required for the shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe that such a change would be desirable. Consequently, a takeover attempt may prove difficult, and shareholders might not realize the highest possible price for their securities. See "Description of Carolina Alliance's Capital Stock—Anti-takeover Effects."

Because the market for Carolina Alliance common stock lacks liquidity, it may be difficult to purchase or sell the combined bank's stock on the public market.

Carolina Alliance common stock currently is quoted on the OTCQX. The trading markets for securities quoted on the OTCQX typically lack the depth, liquidity, and orderliness necessary to maintain an active market in the trading of such securities. The development of a public trading market depends upon the existence of willing buyers and sellers, the presence of which is not within the control of Carolina Alliance nor assured by the quotation of its common stock on the OTCQX. Accordingly, PBSC Financial shareholders should consider the potential illiquid and long-term nature of an investment in Carolina Alliance common stock. Even though Carolina Alliance's shareholder base may increase as a result of the merger, there can be no assurance that an active and liquid trading market for the combined bank's common stock will develop, or once developed, will continue, nor any assurance that PBSC Financial shareholders will be able to sell their shares at or above the exchange ratio in the merger. The absence of a liquid and active trading market, or the discontinuance thereof, may have an adverse effect on both the price and liquidity of the combined bank's common stock.

The unaudited pro forma financial information included in this joint proxy statement/offering circular is preliminary, and the combined bank's actual financial position and results of operations after the merger may differ materially from the unaudited pro forma financial information included in this joint proxy statement/offering circular.

The unaudited pro forma financial information in this joint proxy statement/offering circular is presented for illustrative purposes only and is not necessarily indicative of what the combined bank's actual financial position or results of operations would have been had the merger been completed on the dates indicated.

The results of operations of Carolina Alliance and the market price of Carolina Alliance common stock after the merger may be affected by factors different from those currently affecting the results of operations and market price of shares of Carolina Alliance or PBSC Financial.

The businesses of Carolina Alliance and Pinnacle differ in important respects and, accordingly, the results of operations of the combined bank and the market price of the combined bank's shares of common stock may be affected by factors different from those currently affecting the independent results of operations and market price of shares of either Carolina Alliance or PBSC Financial. For a discussion of the business of Carolina Alliance and of certain factors to consider in connection with its business, see "Information About Carolina Alliance." For a discussion of the business of Pinnacle and of certain factors to consider in connection with its business, see "Information About Pinnacle."

SELECTED FINANCIAL INFORMATION OF CAROLINA ALLIANCE

The following table sets forth certain selected financial data concerning Carolina Alliance as of and for the years ended December 31, 2014, 2013, 2012, 2011, and 2010. This information should be read in conjunction with the financial statements, the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this joint proxy statement/offering circular.

	As of or for the Years Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Selected Financial Condition Data:					
Total assets	**$417,799,499**	$247,384,613	$249,643,118	$239,383,320	$224,994,840
Securities available for sale	**60,776,574**	44,547,635	46,902,315	49,782,266	40,358,514
Total loans and leases	**330,819,139**	182,845,748	175,365,997	168,194,791	157,172,616
Allowance for loan and lease losses	**(3,946,405)**	(3,515,034)	(3,082,443)	(3,772,606)	(2,794,312)
Deposits	**338,391,498**	203,499,827	209,353,951	197,462,866	191,947,369
Other borrowings	**25,592,085**	11,142,253	7,311,528	10,089,616	8,847,398
Shareholders' equity	**52,269,444**	31,977,872	31,758,736	30,049,334	22,977,228
Book value per share	**$ 10.37**	$ 9.77	$ 9.74	$ 9.12	$ 8.36
Selected Operating Data:					
Interest income	**$ 15,718,103**	$ 9,618,045	$ 10,004,944	$ 10,257,823	$ 9,564,294
Interest expense	**1,042,487**	820,938	1,212,427	2,127,457	2,810,406
Net interest income before provision for loan losses	**14,675,616**	8,797,107	8,792,517	8,130,366	6,753,888
Provision for loan losses	**1,098,129**	475,000	1,080,000	1,480,000	1,850,000
Net interest income after provision for loan losses	**13,577,487**	8,322,107	7,712,517	6,650,366	4,903,888
Non-interest income	**5,738,354**	367,742	390,721	301,297	378,190
Non-interest expense	**12,115,887**	6,817,654	5,687,875	5,674,888	5,049,614
Income before income tax provision (benefit)	**7,199,954**	1,872,195	2,415,363	1,276,775	232,464
Income tax provision (benefit)	**1,095,054**	789,402	862,482	52,886	(300,000)
Net income	**6,104,900**	1,082,793	1,552,881	1,223,889	532,464
Preferred stock dividends	**50,000**	50,000	50,000	17,777	-
Net income available to common shareholders	**$ 6,054,900**	$ 1,032,793	$ 1,502,881	$ 1,206,112	$ 532,464
Income per common share:					
Basic	**$ 1.48**	$ 0.37	$ 0.60	$ 0.48	$ 0.21
Diluted	**$ 1.45**	$ 0.37	$ 0.60	$ 0.48	$ 0.21
Earnings Performance Ratios:					
Return on average assets	**1.65 %**	0.44 %	0.63 %	0.51 %	0.25 %
Return on average shareholders' equity	**13.10 %**	3.38 %	5.00 %	4.76 %	2.30 %
Average shareholders' equity to average assets	**12.61 %**	13.09 %	12.71 %	10.75 %	10.85 %
Asset Quality Ratios:					
Net loans and leases charged off (recovered) to net loans and leases	**0.20 %**	0.21 %	1.03 %	0.31 %	0.61 %
Non-accrual loans and leases to gross loans and leases	**0.71 %**	0.37 %	0.88 %	0.42 %	1.83 %
Non-performing assets to total assets	**0.97 %**	0.72 %	0.98 %	0.66 %	1.33 %
Regulatory Capital Ratios:					
Tier 1 leverage ratio	**12.00 %**	12.60 %	12.30 %	11.44 %	10.11 %
Tier 1 risk-based	**14.10 %**	15.60 %	16.01 %	15.58 %	12.80 %
Total risk-based	**15.20 %**	16.90 %	17.27 %	16.84 %	14.05 %

SELECTED FINANCIAL INFORMATION OF PINNACLE

The following table sets forth certain selected financial data concerning Pinnacle as of and for the years ended December 31, 2014, 2013, 2012, 2011, and 2010. This information should be read in conjunction with the financial statements, the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this joint proxy statement/offering circular.

	(Audited)				
	As of or for the Years Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Selected Financial Condition Data:					
Total assets	**$ 154,241,117**	$ 144,727,570	$ 151,069,588	$ 135,650,599	$ 127,647,947
Securities available for sale	**14,899,663**	16,875,159	18,012,186	19,634,825	16,900,251
Loans held for sale	**878,750**	297,000	1,564,840	1,111,710	894,500
Gross loans	**122,938,712**	111,806,508	105,317,094	99,850,266	94,671,768
Allowance for loan losses	**(1,882,226)**	(1,987,774)	(1,960,931)	(1,813,790)	(1,752,262)
Deposits	**122,851,931**	116,194,598	119,107,354	104,893,945	97,531,439
Other borrowings	**8,040,000**	6,750,000	4,250,000	6,500,000	7,250,000
Stockholders' equity	**20,195,519**	19,327,909	19,332,028	17,800,154	17,504,596
Book value per share	**$ 10.94**	$ 10.47	$ 10.48	$ 9.64	$ 9.48
Selected Operating Data:					
Interest income	**$ 6,140,576**	$ 5,891,581	$ 6,016,710	$ 6,058,893	$ 6,296,154
Interest expense	**372,298**	400,953	609,934	978,377	1,451,818
Net interest income before provision for loan losses	**5,768,278**	5,490,628	5,406,776	5,080,516	4,844,336
Provision for loan losses	**(200,000)**	(220,000)	(640,000)	(910,000)	(795,000)
Net interest income after provision for loan losses	**5,568,278**	5,270,628	4,766,776	4,170,516	4,049,336
Other income	**1,270,477**	1,327,577	1,503,137	1,033,189	738,240
Other expenses	**5,315,723**	5,364,194	5,030,462	4,704,691	4,440,837
Income before income tax provision	**1,523,032**	1,234,011	1,239,451	499,014	346,739
Income tax provision	**69,500**	93,000	25,000	4,000	6,000
Net income	**$ 1,453,532**	$ 1,141,011	$ 1,214,451	$ 495,014	$ 340,739
Basic and diluted income per common share	**$ 0.79**	$ 0.62	$ 0.66	$ 0.27	$ 0.18
Earnings Performance Ratios:					
Return on average assets	**0.97 %**	0.78 %	0.87 %	0.38 %	0.27 %
Return on average stockholders' equity	**7.41 %**	6.00 %	6.75 %	2.95 %	2.09 %
Average equity to average assets	**13.03 %**	12.99 %	12.84 %	12.94 %	12.92 %
Asset Quality Ratios:					
Loans charged off to gross loans	**0.25 %**	0.17 %	0.47 %	0.85 %	0.56 %
Non-performing loans to gross loans (1)	**1.00 %**	1.61 %	3.36 %	1.78 %	2.71 %
Non-performing assets to total assets (1)	**1.17 %**	1.55 %	3.07 %	2.42 %	3.28 %
Regulatory Capital Ratios:					
Tier 1 leverage ratio	**13.04 %**	12.84 %	12.32 %	12.49 %	12.80 %
Tier 1 risk-based	**15.81 %**	17.18 %	17.25 %	16.05 %	16.67 %
Total risk-based	**17.06 %**	18.44 %	18.50 %	17.30 %	17.91 %

(1) Non-performing loans and assets include student loans totaling $441,255, $698,061, $2,280,910, $0 and $0, respectively, which are 98% guaranteed by the U.S. Government.

SELECTED UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

On March 23, 2015, Carolina Alliance and Pinnacle jointly announced the signing of a definitive agreement to merge PBSC Financial and Pinnacle Bank with and into Carolina Alliance. The following unaudited pro forma condensed combined financial information is based upon the assumptions that: (i) the total number of shares of PBSC Financial common stock outstanding immediately prior to the completion of the merger will be 1,871,872 and (ii) none of the holders of PBSC Financial common stock will exercise their dissenters' rights.

Under the merger agreement, each outstanding share of the PBSC Financial common stock will be exchanged for either $12.00 in cash or 1.0909 shares of Carolina Alliance common stock. Each shareholder of PBSC Financial will have the opportunity to elect to receive cash, Carolina Alliance common stock, or a combination of cash and Carolina Alliance common stock. Elections by PBSC Financial shareholders will be prorated such that in the aggregate 80% of PBSC Financial's non-dissenting shares of common stock will be converted into the right to receive shares of Carolina Alliance common stock and 20% will be converted into the right to receive the cash consideration. The following unaudited pro forma condensed combined financial information assumes that the Final Carolina Alliance Stock Price will be $11.50, which was the closing price of Carolina Alliance common stock on April 7, 2015. Accordingly, applying the assumptions listed above, 1,497,494 shares of PBSC Financial common stock are assumed to be converted in the merger into the right to receive 1,633,617 shares of Carolina Alliance common stock, plus $4,492,483 in cash for 374,374 shares. It is assumed that there are no dissenters and no cash paid in lieu of fractional shares.

The following unaudited pro forma condensed combined financial information and explanatory notes show the impact on the historical financial positions and results of operations of Carolina Alliance and have been prepared to illustrate the effects of the merger involving Carolina Alliance and PBSC Financial under the acquisition method of accounting with Carolina Alliance treated as the acquirer. Under the acquisition method of accounting, the assets and liabilities of PBSC Financial, as of the effective date of the merger, will be recorded by Carolina Alliance at their respective fair values and the excess of the merger consideration over the fair value of PBSC Financial's net assets will be allocated to goodwill.

The unaudited pro forma condensed combined financial information combines the historical financial information of Carolina Alliance and PBSC Financial as of and for the year ended December 31, 2014 and has been derived from and should be read in conjunction with the audited financial statements of Carolina Alliance and PBSC Financial included in this joint proxy statement/offering circular. The unaudited pro forma condensed consolidated balance sheet gives effect to the merger as if the merger had been consummated on December 31, 2014. The unaudited pro forma consolidated statements of income dated as of December 31, 2014 give effect to the merger as if the merger had been consummated on January 1, 2014.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of the period presented. The adjustments included in these unaudited pro forma condensed financial statements are preliminary and may be revised. The unaudited pro forma condensed combined financial information also does not consider any potential impacts of current market conditions on revenues, potential revenue enhancements, anticipated cost savings and expense efficiencies, or asset dispositions, among other factors.

In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial information, the pro forma allocation of purchase price reflected in the unaudited pro forma condensed combined financial information is subject to adjustment and may vary from the actual purchase price allocation that will be recorded at the time the merger is completed. Adjustments may include, but not be limited to, changes in (i) PBSC Financial's balance sheet through the effective time of the merger; (ii) the aggregate value of merger consideration paid if the price of Carolina Alliance's stock varies from the assumed $11.50 per share; (iii) an increase in the percentage of cash consideration under Carolina Alliance's right to increase the cash payment percentage up to 60% of PBSC Financial's outstanding shares or in the case of a substantial number of dissenting shares; (iv) total merger related expenses if consummation and/or implementation costs vary from currently estimated amounts; and (v) the underlying values of assets and liabilities if market conditions differ from current assumptions.

The following pro forma financial information presents the combined balance sheets of Carolina Alliance and PBSC Financial as if the merger occurred on December 31, 2014.

Pro Forma Condensed Combined Consolidated Balance Sheet
As of December 31, 2014
(Unaudited)

	CAB	PBSC	Adjustments		Combined
Assets:					
Cash and due from banks	$ 6,698,634	$ 4,024,704	$ (4,225,000)	<1>	$ 6,498,338
Federal funds sold and interest bearing balances	722,691	6,139,228	(4,492,483)	<2>	2,369,436
Total cash and cash equivalents	7,421,325	10,163,932	(8,717,483)		8,867,774
Bank term deposits	4,731,000	-	-		4,731,000
Investment securities, available for sale	60,776,574	14,899,663	-		75,676,237
Total gross loans	330,819,139	122,938,712	(1,196,000)	<3>	452,561,851
Less allowance for loan losses	(3,946,405)	(1,882,226)	1,882,226	<4>	(3,946,405)
Net loans	326,872,734	121,056,486	686,226		448,615,446
Property and equipment, net	7,165,761	1,352,988	(100,000)	<5>	8,418,749
Leased assets, net	3,648,196	-	-		3,648,196
Bank owned life insurance	-	3,551,917	-		3,551,917
Deferred tax asset	905,332	-	100,000	<6>	1,005,332
Core deposit intangible	947,704	-	1,200,000	<7>	2,147,704
Goodwill	-	-	4,295,330	<8>	4,295,330
Other assets	5,330,873	3,216,131	-		8,547,004
Total assets	$ 417,799,499	$ 154,241,117	$ (2,535,927)		$ 569,504,689
Liabilities and Shareholders' Equity:					
Liabilities:					
Deposits	338,391,498	122,851,931	98,000	<9>	461,341,429
Repurchase agreements and other borrowings	5,992,085	1,958,324	-		7,950,409
Advances from FHLB of Atlanta	19,600,000	8,040,000	-		27,640,000
Other liabilities	1,546,472	1,195,343	-		2,741,815
Total liabilities	365,530,055	134,045,598	98,000		499,673,653
Shareholders' Equity:					
Preferred stock	5,000	-	-		5,000
Common stock	4,560,733	1,851,868	(218,251)	<11> <12>	6,194,350
Additional paid-in capital	44,531,008	16,898,624	254,351	<11> <12>	61,683,983
Retained earnings	2,841,532	1,121,821	(2,346,821)	<10> <12>	1,616,532
Accumulated other comprehensive income	331,171	323,206	(323,206)	<12>	331,171
Total shareholders' equity	52,269,444	20,195,519	(2,633,927)		69,831,036
Total liabilities and shareholders' equity	$ 417,799,499	$ 154,241,117	$ (2,535,927)		$ 569,504,689

Notes to Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet
As of December 31, 2014

<1> After-tax merger costs and charges are projected to total approximately $4.2 million (pre-tax $4.5 million); $1.2 million attributable to CAB and $3.0 million to PBSC Financial. These costs are presumed to be paid from cash and due from banks.

<2> It is assumed that exactly 20% of the PBSC Financial shares outstanding elect to receive cash payments aggregating to approximately $4.5 million and the funds will come from federal funds sold and interest bearing balances currently yielding less than 0.25% interest. The reduction in interest income from the funds outflow is insignificant and not reflected in the pro forma statement of income.

<3> Loans receivable estimated adjustments include a fair value premium of $1.3 million to reflect fair values of loans based on current interest rates of similar loans. The adjustment will be recognized using the effective yield method, and for purposes of the pro forma financial statements, it is assumed to be recognized over five years on a straight-line basis, which amounts to a decrease in interest income of $261,000 in the first year as shown in the pro forma income statement. A fair value discount to reflect the credit risk of the loan portfolio has been estimated at $2.5 million. Further, it is assumed in the pro forma presentation that future charge-offs in the acquired portfolio will equal the initial adjustment and occur ratably over five years.

<4> Adjustment to eliminate the PBSC Financial allowance for loan losses ("ALLL") in accordance with acquisition method of accounting for the merger. It is assumed that the fair value adjustment is equal to the ALLL.

<5> Represents $100,000 in estimated write-downs of property and equipment that will not be utilized post-merger.

<6> The deferred tax asset adjustment is comprised of additions for fair value adjustments for estimated credit losses on loans receivable and market interest rates on certificates of deposit; less, reductions related to fair value adjustments for market interest rates on loans receivable and to record the core deposit intangible ("CDI") asset. Also, there is an increase to reflect a net deferred tax asset on the differences between the book and tax bases of assets and liabilities on the PBSC Financial opening balance sheet that had not been recorded due to PBSC Financial's status as an "S Corporation," whereby earnings are not taxed at the corporate level. Deferred taxes were calculated at a tax rate of 35.0% for a net increase of $100,000. The deferred tax amounts will be amortized in sync with amortization and accretion of the related assets and liabilities.

<7> The CDI of $1.2 million was estimated at 1.26% of PBSC Financial's core deposits. The CDI will be amortized over seven years using the 150% declining balance method. The method and life reflects our assumptions about the runoff rates in the various types of core deposits.

<8> See the Pro Forma Purchase Price Allocation schedule for computation of the goodwill adjustment.

<9> Adjustment of certificate of deposit balances to fair value based on current interest rates of certificates of deposit with similar terms. The adjustment will be recognized using the effective yield method, and for purposes of the proforma financial statements, it is assumed to be recognized over 18 months on a straight-line basis, which amounts to a decrease in interest expense of $65,000 in the first year as shown in the pro forma income statement.

<10> Adjustments to reflect the net impact to retained earnings of fair value adjustments and other charges.

<11> Adjustments to record the issuance of CAB stock as shown on the Pro Forma Purchase Price Allocation schedule.

<12> Elimination of PBSC Financial equity accounts.

The following pro forma financial information presents the combined income statements as if the merger occurred on January 1, 2014.

Pro Forma Condensed Combined Consolidated Statement of Income
For the Year Ended December 31, 2014
(Unaudited)

	CAB	PSBC	Adjustments		Combined
Interest Income:					
Interest and fees on loans	$ 14,334,373	$ 5,697,607	$ (261,000)	**<1>**	$ 19,770,980
Investment securities	1,314,717	422,565	-		1,737,282
Federal funds sold and interest-bearing balances	69,013	20,404	-		89,417
Total interest income	15,718,103	6,140,576	(261,000)		21,597,679
Interest Expense:					
Deposits	939,570	331,481	(65,000)	**<1>**	1,206,051
Other	102,917	40,817	-		143,734
Total interest expense	1,042,487	372,298	(65,000)		1,349,785
Net Interest Income	14,675,616	5,768,278	(196,000)		20,247,894
Provision for Loan Losses	1,098,129	200,000	-		1,298,129
Net Interest Income after Provision for Loan Losses	13,577,487	5,568,278	(196,000)		18,949,765
Non-Interest Income					
Service fees on deposit accounts	289,106	193,737	-		482,843
Mortgage brokerage income	121,894	714,237	-		836,131
Operating lease income	1,117,046	-	-		1,117,046
Other noninterest income	241,131	265,213	-		506,344
Income on bank owned life insurance	-	97,290	-		97,290
Gains on sales of securities available for sale	15,776	-	-		15,776
Gain on other real estate owned	15,310	-	-		15,310
Gain on sale of SBA loan	120,515	-	-		120,515
Bargain purchase gain on merger transaction	3,817,576	-	-		3,817,576
Total non-interest income	5,738,354	1,270,477	-		7,008,831
Non-Interest Expense					
Salaries and benefits	6,661,847	3,030,354	(600,000)	**<2>**	9,092,201
Occupancy, furniture and equipment	1,011,788	439,859	-		1,451,647
Operating lease expense	992,192	-	-		992,192
Data processing and computer network	958,444	-	(225,000)	**<2>**	733,444
Marketing	262,732	-	(75,000)	**<2>**	187,732
Core deposit amortization	177,787	-	257,000	**<1>**	434,787
Merger related expenses	579,720	-	-		579,720
Other operating	1,471,377	1,845,510	(100,000)	**<2>**	3,216,887
Total non-interest expense	12,115,887	5,315,723	(743,000)		16,688,610
Income before Income Taxes	7,199,954	1,523,032	547,000		9,269,986
Income Tax Expense	1,095,054	69,500	650,000	**<3>**	1,814,554
Net Income	6,104,900	1,453,532	(103,000)		7,455,432
Dividends on Preferred Shares	50,000	-	-		50,000
Net Income Available to Common Shareholders	$ 6,054,900	$ 1,453,532	$ (103,000)		$ 7,405,432

Notes to Unaudited Pro Forma Condensed Combined Consolidated Income Statement
For the Year Ended December 31, 2014

<1> Represents the first year's amortization/accretion expense/income on the following intangibles and fair value adjustments to PBSC Financial's balance sheet, using assumptions shown in the table below:

	Total	First Year (Amortization) Accretion and Assumptions for Condensed Pro Forma Financial Statements		
	Adjustment	Amount	Life	Method
Loans interest rate mark	$ 1,304,000	$ (261,000)	5 years	Straight line
Core deposit intangible	1,200,000	(257,000)	7 years	150% declining balance
Deposit interest rate mark	98,000	65,000	18 months	Straight line

<2> Total cost savings are estimated to be $1,000,000 which reflects reductions in salaries and employee benefits from efficiencies projected to be achieved by eliminating duplicative contracts and/or services.

<3> Adjustment necessary to provide income taxes on pro forma pre-tax adjustments at 36%. Additionally, provision is made to bring PBSC Financial's income tax rate to 36% of pre-tax earnings as if they had operated as an entity taxed at the corporate level in 2014 (due to PBSC Financial's federal income tax status as an S corporation).

<4> Adjustment of PBSC Financial average shares outstanding to reflect 80% of PBSC Financial shares being exchanged at an exchange ratio of 1.0909, which results in 1,633,617 of CAB shares. See the Pro Forma Purchase Price Allocation schedule.

The following table shows the pro forma allocation of purchase price to net assets acquired, which should be read in conjunction with the pro forma balance sheet and related notes.

Purchase Price Allocation
As of December 31, 2014
(Unaudited)

Purchase price consideration:				
PBSC common shares outstanding		1,851,868		
Shares issued from the exercise of stock options in March 2015 assumed to be outstanding at December 31, 2014		20,000		
Proforma PBSC common shares outstanding at December 31, 2014		1,871,868		
Cash of $12.00 per share to be paid for 20% of PBSC shares outstanding		374,374	$ 12.00	$ 4,492,483
PBSC shares assumed to be exchanged for CAB shares		1,497,494		
Exchange ratio		1.0909		
CAB shares to be issued for 80% of PBSC shares outstanding at an assumed market price of $11.50 per share.		1,633,617	$ 11.50	18,786,592
Total consideration paid				23,279,075
PBSC common shareholders' equity at December 31, 2014, as reported		$ 20,195,519		
Estimated adjustments to reflect assets acquired at fair value:				
Core deposit intangible	$ 1,200,000			
Loans:				
Credit fair value mark	(2,500,000)			
Interest rate fair value mark	1,304,000			
Allowance for loan losses	1,882,226			
Property and equipment	(100,000)			
Deferred tax asset	100,000			
Estimated adjustments to reflect liabilities acquired at fair value:				
Time deposits	(98,000)			
PBSC merger-related expenses and charges	(3,000,000)			
Total adjustments to book value		(1,211,774)		
Adjusted PBSC common shareholders' equity				18,983,745
Goodwill				$ 4,295,330

UNAUDITED COMPARATIVE PER SHARE DATA

The following summary presents per share information for Carolina Alliance and PBSC Financial on a historical, pro forma combined and pro forma diluted equivalent basis as of or for the year ended December 31, 2014 as applicable. The pro forma information gives effect to the merger accounted for using the acquisition method of accounting. This information should be read in conjunction with the companies' historical financial statements and related notes and pro forma condensed financial data included with this joint proxy statement/offering circular. The pro forma information should not be relied upon as being indicative of the historical results the companies would have had if the merger had occurred before such periods or the future results that the companies will experience after the merger.

Pro forma per share data of PBSC Financial is based on the assumption that 1,497,494 shares, or 80% of PBSC Financial pro forma common stock outstanding of 1,871,872 shares, will be converted in the merger into the right to receive 1,633,617 shares of Carolina Alliance common stock, plus $4,492,483 in cash for 374,374, or 20% of pro forma, shares. It is assumed that there are no dissenters and no cash paid in lieu of fractional shares. The foregoing assumes that the shares of Carolina Alliance common stock to be issued will have a value of $11.50 per share, the closing price per share of Carolina Alliance common stock as of April 7, 2015. The actual price of Carolina Alliance stock on the date of merger may be different than the price used for the pro forma.

The pro forma combined basic and diluted net income per common share have been computed based on the actual average and diluted average number of shares, respectively, of common stock of Carolina Alliance adjusted for the additional shares to be issued in connection with the acquisition of PBSC Financial. The merger equivalent basic and diluted net income per share of PBSC Financial is based on the number of shares of Carolina Alliance common stock into which each share of PBSC Financial common stock will be converted in the merger, or alternatively stated, the pro forma combined basic and diluted net income per common share times the exchange ratio of 1.0909.

The pro forma combined book value per share is based upon the pro forma combined equity of Carolina Alliance divided by the pro forma number of outstanding shares of the combined companies as of December 31, 2014. The merger equivalent book value per common share is the pro forma combined book per share times the exchange ratio of 1.0909.

	As of or for the Year Ended December 31, 2014	
	Basic	**Diluted**
Basic and fully diluted net income per common share:		
Carolina Alliance historical	$ 1.48	$ 1.45
PBSC historical	0.79	0.79
Pro forma combined	1.29	1.28
Equivalent pro forma for one share of PBSC common stock	1.41	1.39
Book value per common share:		
Carolina Alliance historical	$ 10.37	
PBSC historical	10.91	
Pro forma combined	10.47	
Equivalent pro forma for one share of PBSC common stock	11.42	

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/offering circular, including information included or incorporated by reference in this document, contains statements which 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. Forward-looking statements relate to the financial condition, results of operations, plans, objectives, future performance, and business of each of Carolina Alliance and Pinnacle, as well as certain information relating to the merger. Forward-looking statements are based on many assumptions and estimates and are not guarantees of future performance. The combined bank's actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which Carolina Alliance and Pinnacle are unsure, including many factors that are beyond Carolina Alliance's and Pinnacle's control. The words "may," "would," "could," "should," "will," "expect," "anticipate," "predict," "project," "potential," "believe," "continue," "contemplate," "seek," "assume," "believe," "intend," "plan," "forecast," "goal," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Various factors, some of which are beyond Carolina Alliance's and Pinnacle's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the risks described in the "Risk Factors" section, and the following:

- expected revenue synergies and cost savings from the merger may not be fully realized;
- diversion of Carolina Alliance's and PBSC Financial's management time on merger-related issues;
- revenues following the combination may be lower than expected;
- ability to obtain governmental approvals of the merger on the proposed terms and schedule;
- failure of Carolina Alliance's and PBSC Financial's shareholders to approve the combination;
- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- changes in political conditions or the legislative or regulatory environment;
- general economic conditions, either nationally or regionally and especially in Carolina Alliance's and Pinnacle's primary service areas, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in deposit flows;
- changes in monetary and tax policies;
- adequacy of the level of allowance for loan loss;
- the rate of delinquencies and amounts of charge-offs;
- the rates of loan growth and the lack of seasoning of each of Carolina Alliance's and Pinnacle's loan portfolios;
- changes in accounting principles, policies or guidelines;
- Carolina Alliance's and Pinnacle's ability to maintain internal control over financial reporting;

- Carolina Alliance's and Pinnacle's reliance on secondary sources such as Federal Home Loan Bank advances, sales of securities and loans, federal funds lines of credit from correspondent banks and out-of-market time deposits, to meet their liquidity needs;

- adverse changes in asset quality and resulting credit risk-related losses and expenses;

- loss of consumer confidence and economic disruptions resulting from terrorist activities; and

- changes in the securities markets.

For any forward-looking statements made in this joint proxy statement/offering circular or in any documents incorporated by reference into this joint proxy statement/offering circular, Carolina Alliance and Pinnacle claim the protection of the safe harbor for forward-looking statements contained in the Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this joint proxy statement/offering circular or the date of any document incorporated by reference in this joint proxy statement/offering circular. Carolina Alliance and Pinnacle do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this joint proxy statement/offering circular and attributable to Carolina Alliance and Pinnacle, or any person acting on their behalf, are expressly qualified in their entirety by the cautionary statements contained or referred to in this joint proxy statement/offering circular.

ANNUAL SHAREHOLDERS' MEETINGS

General

Carolina Alliance. With respect to Carolina Alliance shareholders, this document constitutes a proxy statement of Carolina Alliance in connection with its solicitation of proxies from its shareholders for the vote on the Merger Proposal, the Carolina Alliance Directors Proposal, the Carolina Alliance Accountants Proposal and the Adjournment Proposal. This proxy statement is being mailed by Carolina Alliance on or about May 15, 2015 to Carolina Alliance shareholders of record on April 30, 2015, together with the notice of the annual meeting of shareholders of Carolina Alliance and a proxy solicited by Carolina Alliance's board of directors for use at the annual meeting and at any adjournments or postponements of the meeting.

PBSC Financial. With respect to PBSC Financial shareholders, this document constitutes a proxy statement of PBSC Financial in connection with its solicitation of proxies from its shareholders for the vote on the Merger Proposal, the PBSC Financial Directors Proposal, and the Adjournment Proposal. The proxy statement is being mailed by PBSC Financial and Carolina Alliance on or about May 15, 2015 to PBSC Financial shareholders of record on April 30, 2015, together with the notice of the annual meeting of shareholders of PBSC Financial and a proxy solicited by PBSC Financial's board of directors for use at the annual meeting and at any adjournments or postponements of the meeting.

Meeting Dates, Times, and Places and Record Dates

Carolina Alliance. The Carolina Alliance annual meeting will be held at the bank's headquarters located at 200 South Church Street, Spartanburg, South Carolina 29306 at 10:00 a.m., local time, on June 29, 2015. Holders of Carolina Alliance common stock of record at the close of business on April 30, 2015 will be entitled to receive notice of and to vote at the annual meeting. As of the record date, there were 4,560,660 shares of Carolina Alliance common stock outstanding and entitled to vote, with each such share entitled to one vote.

PBSC Financial. The PBSC Financial annual meeting will be held at the bank's headquarters at 937 North Pleasantburg Drive, Greenville, South Carolina 29607, at 5:30 p.m., local time, on June 25, 2015. Only holders of PBSC Financial common stock of record at the close of business on April 30, 2015 will be entitled to receive notice of and to vote at the annual meeting. As of the record date, there were 1,871,872 shares of PBSC Financial common stock outstanding and entitled to vote, with each such share entitled to one vote.

Matters to be Considered

Carolina Alliance. At the Carolina Alliance annual meeting, Carolina Alliance shareholders will be asked to approve the merger agreement. Carolina Alliance shareholders will also be asked to consider and vote on a proposal to elect five directors, each for a term expiring at the 2018 annual meeting of shareholders, a proposal to ratify the appointment of Elliott Davis Decosimo, LLC as Carolina Alliance's independent auditor for the year ending December 31, 2015 and a proposal to authorize the board of directors to adjourn the annual meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the annual meeting, in person or by proxy, to approve the merger agreement. Finally, Carolina Alliance shareholders may also be asked to consider any other business that properly comes before the annual meeting. Each copy of this joint proxy statement/offering circular mailed to Carolina Alliance shareholders is accompanied by a proxy form for use at the annual meeting. If your shares are held with a broker in "street name," you should follow the broker's instructions to indicate how you wish to vote, rather than completing the proxy form.

PBSC Financial. At the PBSC Financial annual meeting, PBSC Financial shareholders will be asked to approve the merger agreement. Under the merger agreement, PBSC Financial and Pinnacle Bank will merge with and into Carolina Alliance and each share of PBSC Financial common stock will be converted into the right to receive cash, shares of common stock of Carolina Alliance, or a combination of both cash and shares of common stock of Carolina Alliance, at the shareholder's election. If a shareholder elects cash, the shareholder will receive $12.00 for each share of PBSC Financial common stock. If a shareholder elects stock, the shareholder will receive a number of shares of Carolina Alliance common stock based on the exchange ratio for each share of PBSC Financial common stock, plus the Additional Cash Amount, if any. If a shareholder elects a combination, the shareholder will receive a combination of cash and Carolina Alliance common stock for each share of PBSC Financial common

stock. Elections by shareholders are limited by a requirement that 20% of the total number of outstanding non-dissenting shares of PBSC Financial common stock will be exchanged for cash (although Carolina Alliance has the right to allow up to 60% of the consideration to be paid in cash if so elected by PBSC Financial shareholders) and that 80% of the total number of outstanding non-dissenting shares of PBSC Financial common stock will be exchanged for Carolina Alliance common stock. Therefore, the form of consideration you receive will depend in part on the elections of other PBSC Financial shareholders. Carolina Alliance will not issue fractional shares in the merger. Instead, you will receive a cash payment, without interest, in an amount equal to the fraction of a share of Carolina Alliance common stock otherwise issuable upon conversion multiplied by $12.00.

PBSC Financial shareholders will also be asked to consider and vote on a proposal to elect 10 directors, each for a term expiring at the 2016 annual meeting of shareholders, and a proposal to authorize the board of directors of PBSC Financial to adjourn the annual meeting to allow time for further solicitation of proxies in the event there are insufficient votes present at the annual meeting, in person or by proxy, to approve the merger agreement. Finally, PBSC Financial shareholders may also be asked to consider any other business that properly comes before the annual meeting. Each copy of this joint proxy statement/offering circular mailed to PBSC Financial shareholders is accompanied by a proxy form for use at the annual meeting.

Vote Required

Carolina Alliance. Approval of the Merger Proposal requires the affirmative vote of holders of two-thirds of the outstanding shares of Carolina Alliance common stock. A plurality of votes cast by holders of Carolina Alliance common stock is required to elect directors. The Carolina Alliance Accountants Proposal and the Adjournment proposal will be approved if the number of shares of Carolina Alliance common stock, represented in person or by proxy at the Carolina Alliance annual meeting and entitled to vote thereon, voted in favor of each such proposal exceeds the number of shares voted against such proposal

On the record date, there were approximately 4,560,660 outstanding shares of Carolina Alliance common stock, each of which is entitled to one vote at the annual meeting. On that date, the directors and officers of Carolina Alliance and their affiliates beneficially owned or had a right to acquire a total of approximately 28.09% of the outstanding shares of Carolina Alliance common stock. Each of Carolina Alliance's directors and three of its executive officers are anticipated to vote his or her shares of Carolina Alliance common stock in favor of the merger agreement. The presence, in person or by proxy, of shares of Carolina Alliance common stock representing a majority of Carolina Alliance's outstanding shares entitled to vote at the annual meeting is necessary in order for there to be a quorum at the annual meeting. A quorum must be present in order for the vote on the merger agreement to occur.

PBSC Financial. Approval of the Merger Proposal requires the affirmative vote of holders of a majority of the outstanding shares of PBSC Financial common stock. A plurality of votes cast by holders of PBSC Financial common stock is required to elect directors. The Adjournment proposal will be approved if the number of shares of PBSC Financial common stock, represented in person or by proxy at the PBSC Financial annual meeting and entitled to vote thereon, voted in favor of each such proposal exceeds the number of shares voted against such proposal.

On the record date, there were 1,871,872 outstanding shares of PBSC Financial common stock, each of which is entitled to one vote at the annual meeting. On that date, the directors and executive officers of Pinnacle and their affiliates beneficially owned a total of approximately 16.19% of the outstanding shares of PBSC Financial common stock. Each of Pinnacle's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of PBSC Financial common stock in favor of the merger agreement. The presence, in person or by proxy, of shares of PBSC Financial common stock representing a majority of PBSC Financial's outstanding shares entitled to vote at the annual meeting is necessary in order for there to be a quorum at the annual meeting. A quorum must be present in order for the vote on the merger agreement to occur.

Voting of Proxies

Carolina Alliance. Shares of common stock represented by properly executed proxies received at or prior to the Carolina Alliance annual meeting will be voted at the annual meeting in the manner specified by the holders of such shares. Properly executed proxies that do not contain voting instructions will be voted vote "FOR" the Merger Proposal, "FOR" the Carolina Alliance Directors Proposal, "FOR" the Carolina Alliance Accountants

Proposal and "FOR" the Adjournment Proposal. Any record shareholder present in person or by proxy (including broker non-votes, which generally occur when a broker who holds shares in street name for a customer does not have the authority to vote on certain non-routine matters because its customer has not provided any voting instructions with respect to the matter) at the annual meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

Because approval of the merger agreement requires the affirmative vote of two-thirds of the shares of Carolina Alliance common stock entitled to vote at the Carolina Alliance annual meeting, abstentions and broker non-votes will have the same effect as negative votes. Accordingly, Carolina Alliance's board of directors urges its shareholders to complete, date, and sign the accompanying proxy form, or such other document as your broker instructs you to use if your shares are held in street name, and return it promptly in the enclosed, postage-paid envelope.

PBSC Financial. Shares of common stock represented by properly executed proxies received at or prior to the PBSC Financial annual meeting will be voted at the annual meeting in the manner specified by the holders of such shares. Properly executed proxies that do not contain voting instructions will be voted vote "FOR" the Merger Proposal, "FOR" the PBSC Financial Directors Proposal and "FOR" the Adjournment Proposal. Any record shareholder present in person or by proxy (including broker non-votes, which generally occur when a broker who holds shares in street name for a customer does not have the authority to vote on certain non-routine matters because its customer has not provided any voting instructions with respect to the matter) at the annual meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

Because approval of the merger agreement requires the affirmative vote of a majority of all shares of PBSC Financial common stock entitled to vote at the PBSC Financial annual meeting, abstentions and broker non-votes will have the same effect as negative votes. Accordingly, PBSC Financial's board of directors urges its shareholders to complete, date, and sign the accompanying proxy form, and return it promptly in the enclosed, postage-paid envelope.

Revocability of Proxies

Carolina Alliance. If you are a record shareholder, the grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking a proxy. If you are a record shareholder, you may revoke a proxy at any time prior to its exercise by delivering to the secretary of Carolina Alliance either a duly executed revocation or a proxy bearing a later date. In addition, if you are a record shareholder, you may revoke a proxy prior to its exercise by voting in person at the annual meeting. All written notices of revocation and other communications with respect to the revocation of Carolina Alliance proxies should be addressed to Carolina Alliance, 200 South Church Street, Spartanburg, South Carolina 29306, Attention: Chief Financial Officer. If you attend the meeting and vote your shares by ballot, your vote at the meeting will revoke any vote you submitted previously by telephone, over the Internet, or by mail. Attendance at the annual meeting will not in and of itself constitute revocation of a proxy. Even if you currently plan to attend the meeting, we recommend that you also vote by proxy so that your vote will be counted if you later decide not to attend the meeting. If your shares are held in "street name" with a broker, you must follow your broker's instructions to revoke your voting instructions. Further, if your shares are held in "street name", you may not vote in person at the meeting unless your broker provides you voting authorization.

PBSC Financial. If you are a record shareholder, the grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking a proxy. If you are a record shareholder, you may revoke a proxy at any time prior to its exercise by delivering to the secretary of PBSC Financial either a duly executed revocation or a proxy bearing a later date. In addition, if you are a record shareholder, you may revoke a proxy prior to its exercise by voting in person at the annual meeting. All written notices of revocation and other communications with respect to the revocation of PBSC Financial proxies should be addressed to PBSC Financial Corporation, 937 North Pleasantburg Drive, Greenville, South Carolina 29607, Attention: Chief Financial Officer. If you attend the meeting and vote your shares by ballot, your vote at the meeting will revoke any vote you submitted previously by telephone, over the Internet, or by mail. Attendance at the annual meeting will not in and of itself constitute revocation of a proxy. Even if you currently plan to attend the meeting, we recommend that you also vote by proxy so that your vote will be counted if you later decide not to attend the meeting.

Solicitation of Proxies

Carolina Alliance. Carolina Alliance will pay all of the costs of soliciting proxies in connection with its annual meeting and one-half of the costs of printing this joint proxy statement/offering circular. Solicitation of proxies may be made in person or by mail, telephone, or facsimile, or other form of communication by directors, officers, and employees of Carolina Alliance who will not be specially compensated for such solicitation. Nominees, fiduciaries, and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

PBSC Financial. Pinnacle will pay all of the costs of soliciting proxies in connection with its annual meeting and one-half of the costs of printing this joint proxy statement/offering circular. Solicitation of proxies may be made in person or by mail, telephone, or facsimile, or other form of communication by directors, officers, and employees of Pinnacle who will not be specially compensated for such solicitation. Nominees, fiduciaries, and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

No person is authorized to give any information or to make any representation not contained in this joint proxy statement/offering circular and, if given or made, such information or representation should not be relied upon as having been authorized by Carolina Alliance, Pinnacle or any other person. The delivery of this joint proxy statement/offering circular does not, under any circumstances, create any implication that there has been no change in the business or affairs of Carolina Alliance or Pinnacle since the date of the joint proxy statement/offering circular.

Recommendation of the Boards of Directors

Carolina Alliance. **Carolina Alliance's board of directors has determined that the merger agreement and the transactions contemplated by it are in the best interests of Carolina Alliance and its shareholders. The members of the Carolina Alliance board of directors unanimously recommend that the Carolina Alliance shareholders vote at the annual meeting "FOR" the Merger Proposal. The members of the Carolina Alliance board of directors also unanimously recommend that the Carolina Alliance shareholders vote at the annual meeting "FOR" the Carolina Alliance Directors Proposal, "FOR" the Carolina Alliance Accountants Proposal and "FOR" the Adjournment Proposal.**

In the course of reaching its decision to approve the merger agreement and the transactions contemplated in the merger agreement, Carolina Alliance's board of directors, among other things, consulted with its legal advisors, Nelson Mullins Riley & Scarborough LLP, regarding the legal terms of the merger agreement, and with its financial advisor, FIG Partners, LLC ("FIG"), as to the fairness, from a financial point of view, of the merger consideration to the holders of Carolina Alliance common stock. For a discussion of the factors considered by Carolina Alliance's board of directors in reaching its conclusion, see "Proposal No.1—The Merger—Background of the Merger" and "—Carolina Alliance's Reasons for the Merger."

PBSC Financial. **PBSC Financial's board of directors has determined that the merger agreement and the transactions contemplated by it are in the best interests of PBSC Financial and its shareholders. The members of the PBSC Financial board of directors unanimously recommend that the PBSC Financial shareholders vote at the annual meeting "FOR" these proposals. The members of the PBSC Financial board of directors also unanimously recommend that the PBSC Financial shareholders vote at the annual meeting "FOR" the PBSC Financial Directors Proposal and "FOR" the Adjournment Proposal.**

In the course of reaching its decision to approve the merger agreement and the transactions contemplated in the merger agreement, PBSC Financial's board of directors, among other things, consulted with its legal advisors, Bryan Cave LLP, regarding the legal terms of the merger agreement, and with its financial advisor, SunTrust Robinson Humphrey, Inc. ("STRH") as to the financial terms of the transaction. For a discussion of the factors considered by PBSC Financial's board of directors in reaching its conclusion, see "Proposal No. 1—The Merger—Background of the Merger" and "—PBSC Financial's Reasons for the Merger."

PBSC Financial shareholders should note that PBSC Financial's directors and executive officers have certain interests in, and may derive benefits as a result of, the merger that are in addition to their interests as shareholders of PBSC Financial. See "Proposal No. 1—The Merger — Interests of Employees and Directors of PBSC Financial in the Merger."

Shareholder Assistance

Carolina Alliance. If you have any questions concerning this joint proxy statement/offering circular, would like additional copies of this joint proxy statement/offering circular or need help voting your shares of Carolina Alliance common stock, please contact our proxy solicitor, Georgeson Inc., at (800) 903-2897. Questions concerning the merger should be directed to Lamar Simpson, Chief Financial Officer, at:

200 South Church Street
Spartanburg, South Carolina 29306
(864) 542-2428

PBSC Financial. If you have any questions concerning the merger or this joint proxy statement/offering circular, would like additional copies of this joint proxy statement/offering circular or need help voting your shares of PBSC Financial common stock, please contact Tommy Warren, Chief Financial Officer, at:

937 North Pleasantburg Drive
Greenville, South Carolina 29607
(864) 233-6915

PROPOSAL NO. 1 - THE MERGER PROPOSAL

The descriptions of the terms and conditions of the merger, the merger agreement, and any related documents in this joint proxy statement/offering circular are qualified in their entirety by reference to the copy of the merger agreement attached as Appendix A to this joint proxy statement/offering circular.

General

The merger agreement provides that if all of the conditions set forth in the merger agreement are satisfied or waived, PBSC Financial and Pinnacle Bank will merge with and into Carolina Alliance, with Carolina Alliance remaining in existence as the surviving entity in the merger.

Background of the Merger

Over the last several years, there have been significant developments in the banking and financial services industry. These developments have included the increased emphasis and dependence on automation, specialization of products and services, increased competition from other financial institutions, and a trend toward consolidation, coupled with heightened regulatory capital requirements and compliance obligations on financial institutions. The respective boards of directors of both Carolina Alliance and Pinnacle each frequently considered the impact these developments might have on the long term value of the stock of their respective companies.

As part of and Carolina Alliance's continuing efforts to enhance its community banking franchise and shareholder value, its board of directors has periodically reviewed various strategic alternatives available to Carolina Alliance, including continued independence, the acquisition of other financial institutions, and mergers with or acquisitions by other financial institutions. Carolina Alliance has consulted with financial advisors from time to time to assist with this review. In general, the board of directors of Carolina Alliance holds the view that strategic combinations with sound institutions in attractive markets can provide many benefits to the organization and its shareholders.

PBSC Financial has consistently reviewed and analyzed strategies to maximize shareholder value. As economic conditions, particularly for community banks, have improved during recent years, the board of directors of PBSC Financial began to more carefully analyze its strategic alternatives. In November 2013, the board of directors of PBSC Financial held a strategic planning session at which the board of directors discussed strategic alternatives for the organization. Following that meeting, the board determined that it would be appropriate for the organization to conduct a "market check" by allowing certain potential partners to review diligence materials and submit indications of interest to merge with or acquire PBSC Financial. On January 27, 2014, the board of directors of PBSC Financial approved and PBSC Financial retained STRH as its independent financial advisor.

Over the following months, STRH conducted the market check and interacted with potential partners. During that process, six parties executed Non-Disclosure Agreements with respect to PBSC Financial. At the conclusion of the process, the board of directors determined that there were no indications of interest that it had an interest in pursuing.

In August 2014, the PBSC Financial board of directors held another strategic planning meeting. The areas of focus of this meeting were developing a growth plan to drive shareholder value and developing strategies to provide shareholder liquidity to those shareholders who desire to sell some or all of their holdings. As PBSC Financial's management team worked on this plan following the meeting, they considered various alternative growth strategies. During that process, the management team considered a growth plan through a strategic merger, and Carolina Alliance was considered a strong candidate.

Since the inception of each bank, management teams of the two banks have frequently conversed at peer bank meetings. Pinnacle and Carolina Alliance have been members of a formal "peer group" that has met approximately quarterly for several years. Members of the senior management of the banks have had the opportunity to know each other and collectively discuss with other peer group members banking issues of mutual interest at these meetings. On October 17, 2014, Mr. Barnett called Mr. Poole to discuss Carolina Alliance's merger with Forest Commercial Bank and to explore the possibilities of a similar strategic combination with PBSC Financial. On October 21, 2014 Mr. Barnett and Mr. Poole met to further discuss a strategic combination. On October 27,

2014, Messrs. Poole, Rogers, and Simpson from Carolina Alliance met informally with Messrs. Barnett and Sumerel of PBSC Financial and representatives of STRH to determine if there was mutual interest in pursuing a business combination.

Mr. Poole, Mr. Kimberly, and Mr. Barnett have known each other professionally and personally for several years. These individuals had numerous meetings and phone conversations in the informal discussion period. Additionally, other members of the executive management team of Pinnacle and Carolina Alliance have previous professional and personal relationships. Tim Camp and Jeff Covington, the senior lending officers for Carolina Alliance, and David Weaver, the senior lending officer of Pinnacle, have worked together on loan participations. Additionally, during the course of the informal conversations, chairmen Cash and Sumerel had several conversations to further explore and develop the possibility of a merger.

On October 29, 2014, the Strategic Planning Committee of Carolina Alliance held a meeting to discuss the October 27, 2014 meeting with PBSC Financial. The committee authorized the engagement of FIG to assist in financial analysis and the drafting of a proposed term sheet. Messrs. Poole, Kimberly and Simpson also engaged in preliminary discussions with members of the Carolina Alliance board of directors regarding the potential transaction.

Also, beginning on October 29, 2014, Mr. Simpson began a series of communications with FIG via email and telephone to exchange and discuss financial analyses regarding the potential transaction. Mr. Simpson met with FIG to discuss a proposed term sheet and to review financial analyses of the merger. On November 13, 2014, Carolina Alliance submitted a draft nonbinding letter of intent, including a draft term sheet to PBSC Financial. During the course of those conversations, PBSC Financial also received a nonbinding letter of intent from a third party seeking to acquire PBSC Financial. This party had done preliminary due diligence during STRH's market check process and decided to submit a proposal. On November 17, 2014, Carolina Alliance submitted an amended nonbinding letter of intent, including a draft term sheet to PBSC Financial.

On November 13, November 25, and December 18, 2014, Mr. Barnett also engaged in discussions with members of the PBSC Financial board of directors regarding the potential transaction. The November meetings were focused on contrasting the two proposals for combination transactions with each other and with the option for remaining independent to determine which path was best for PBSC Financial. Ultimately, the board of directors of PBSC Financial determined that the proposal from Carolina Alliance presented an opportunity that PBSC Financial should pursue, and, at the December 18, 2014 meeting, the board of directors of PBSC Financial approved the execution of a nonbinding term sheet/letter of intent that would outline the framework of a potential transaction and enable due diligence to begin. The parties executed the letter of intent on the same date.

Over the next several weeks, the parties conducted due diligence and engaged in negotiations with respect to the potential transaction. During March of 2015, representatives of the two organizations negotiated the terms of the definitive merger agreement and related documents.

On March 9, 2015, the Executive Committee of Carolina Alliance met to review and discuss the status of the potential transaction with Pinnacle.

On March 16, 2015, the board of directors of PBSC Financial met to review the results of the due diligence process and to discuss a proposed final draft of the definitive merger agreement. Legal counsel and STRH were present. STRH gave an overview of the financial terms of the transaction and provided the analyses on which its fairness opinion, if and when issued, would be based. Legal counsel gave a summary of the terms of the definitive merger agreement and answered the directors' questions regarding the agreement. Directors were provided with drafts of all relevant documents in order to provide an opportunity to review them prior to the meeting at which a vote was proposed to be taken. On the same day, the board of directors of Carolina Alliance held an executive session to review the results of the due diligence process and the draft of the definitive merger agreement. Legal counsel and FIG were present at the executive session.

On March 19, 2015, the board of directors of PBSC Financial held a special meeting to consider the definitive merger agreement and related documents that the parties had partially negotiated. The board discussed the agreement and the transaction in great detail and conferred with STRH and legal counsel regarding certain questions. Following discussion, the board approved the transaction and the agreement but also resolved to discuss

with Carolina Alliance certain terms of the agreement to improve the transaction from the perspective of the board of directors of PBSC Financial. On the same day, the board of directors of Carolina Alliance held a special meeting to consider the definitive merger agreement and related documents that the parties had negotiated. Upon learning of the requests from PBSC Financial, the board of directors of Carolina Alliance elected to defer a vote on the agreement until those terms had been fully negotiated.

Over the coming days, the parties and their representatives completed final negotiations of the terms of the definitive merger agreement. In the afternoon of March 23, 2015, PBSC Financial's and Pinnacle's boards of directors held a special meeting to consider the definitive merger agreement and related documents. Legal counsel participated in the meeting. Management confirmed that STRH had delivered its written opinion to the board of directors of PBSC Financial that, as of March 23, 2015, and based upon and subject to the factors, conditions, limitations, qualifications and assumptions set forth therein, the merger consideration (as defined below in "Opinion of PBSC Financial's Financial Advisor") to be received in the merger by the holders of PBSC Financial common stock was fair, from a financial point of view, to such shareholders (other than the Excluded Holders (as defined below in "Opinion of PBSC Financial's Financial Advisor")). Following discussion, the boards of directors of PBSC Financial and Pinnacle approved the merger agreement and authorized and directed management to execute and deliver the merger agreement and related documents.

On the afternoon of March 23, 2015, Carolina Alliance's board of directors held a special meeting to consider the definitive merger agreement and related documents that the parties had negotiated. Legal counsel for Carolina Alliance, present by phone, reviewed in detail with the board of directors the definitive merger agreement and all related documents, copies of which were delivered to each director before the date of the meeting. Following extensive review and discussion, the board of directors of Carolina Alliance voted to accept the amended language of the merger agreement that had been negotiated since March 19 and then unanimously approved the merger agreement as amended and authorized and directed management to execute and deliver the merger agreement and related documents subject to the adoption of the agreement by PBSC Financial's and Pinnacle Bank's boards of directors.

Carolina Alliance's Reasons for the Merger

Carolina Alliance's board of directors considered several factors in determining that the merger with Pinnacle is fair to, and in the best interests of, Carolina Alliance and its shareholders. The Carolina Alliance board did not assign any specific or relative weight to the factors in its consideration. The material factors considered by the Carolina Alliance board included, without limitation, that the merger would:

- Accelerate Carolina Alliance's stated goals of expanding into the greater Greenville, South Carolina market, which is one of South Carolina's largest and most quickly growing markets;
- Add talented management, employees, and directors to Carolina Alliance's team;
- Provide more opportunities for existing bank employees;
- Increase shares of common stock outstanding to approximately 6.2 million shares and increase trading liquidity for Carolina Alliance shareholders;
- Provide greater visibility with bank research analysts;
- Enhance the possibility to raise additional capital when needed;
- Enhance the combined bank's ability to attract and serve larger business clients;
- Generate more retail business for the combined bank from Pinnacle's branch network; and
- Expand the asset base of Carolina Alliance over which to allocate its fixed costs.

PBSC Financial's Reasons for the Merger

PBSC Financial's board of directors considered several factors in determining that the merger with Carolina Alliance is advisable and in the best interests of, PBSC Financial and its shareholders. The PBSC Financial board did not assign any specific or relative weight to the factors in its consideration. The material factors considered by the PBSC Financial board included, without limitation, the following:

- The value and form of the consideration to be received by PBSC Financial's shareholders relative to the book value and earnings per share of PBSC Financial common stock and the estimated future value of PBSC Financial, as well as data from comparable merger transactions;

- Information concerning the financial condition, results of operations and business prospects of PBSC Financial and of Carolina Alliance;

- The short-term and long-term social and economic effects on the employees, customers, shareholders and other constituents of PBSC Financial and Pinnacle Bank, which the board of directors of PBSC Financial viewed favorably given Carolina Alliance's profile as a South Carolina-based community bank and the ongoing influence that management of PBSC Financial is expected to have following completion of the merger;

- The financial terms of recent business combinations in the financial services industry and a comparison of the multiples of selected combinations with the terms of the proposed transaction with Carolina Alliance;

- A report and opinion presented by PBSC Financial's independent financial advisor as to the fairness, from a financial point of view, of the consideration to be paid to PBSC Financial's shareholders;

- The relative liquidity of the cash and stock consideration to be received by PBSC Financial's shareholders in the merger as compared to the existing liquidity of shares of common stock of PBSC Financial, particularly in view of Carolina Alliance's stock being traded on the OTCQX U.S. Premier Marketplace maintained by OTC Markets Group, Inc.;

- The board of directors' view of Carolina Alliance's ability to produce long-term value for shareholders of PBSC Financial who receive shares of Carolina Alliance common stock in the merger;

- The board of directors' view that the merger represents a continuation of the Company's strategic goal to be a community-based lending organization providing long-term shareholder value;

- The alternatives to the merger, including remaining an independent institution;

- The competitive and regulatory environment for financial institutions generally; and

- The fact that the merger is structured as a tax-free reorganization.

PBSC Financial's board of directors did not assign any specific or relative weight to the foregoing factors in their considerations.

Opinion of Carolina Alliance's Financial Advisor

FIG has delivered to the board of directors of Carolina Alliance its opinion that, based upon and subject to the various considerations set forth in its written opinion dated March 23, 2015, the merger consideration in connection with the proposed merger between Carolina Alliance and Pinnacle is fair to the shareholders of Carolina Alliance from a financial point of view as of such date. In requesting FIG's advice and opinion, no limitations were imposed by Carolina Alliance upon FIG with respect to the investigations made or procedures followed by it in rendering its opinion. **The full text of the opinion of FIG, dated March 23, 2015, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Appendix C. Carolina Alliance shareholders should read this opinion in its entirety.**

FIG is a nationally recognized investment banking firm and, as part of its investment banking business, is continually engaged in the valuation of financial institutions in connection with mergers and acquisitions, private placements and valuations for other purposes. As a specialist in securities of financial institutions, FIG has experience in, and knowledge of, banks, thrifts and bank and thrift holding companies. Carolina Alliance selected FIG to act as its financial advisor in connection with the merger on the basis of the firm's reputation and expertise in transactions such as the merger.

FIG will receive a fee from Carolina Alliance a portion of which is contingent upon the consummation of the merger, for performing its financial advisory services in connection with the merger and rendering a written opinion to the board of directors of Carolina Alliance as to the fairness, from a financial point of view, of the merger consideration to the shareholders of Carolina Alliance. Further, Carolina Alliance has agreed to indemnify FIG against any claims or liabilities arising out of FIG's engagement by Carolina Alliance. FIG has been engaged by Carolina Alliance during the prior two years and we have received compensation for services provided. FIG may in the future provide investment banking and financial advisory services to Carolina Alliance and receive compensation for such services.

FIG's opinion is directed only to the fairness, from a financial point of view, of the merger consideration, and, as such, does not constitute a recommendation to any Carolina Alliance shareholder as to how the shareholder should vote at the Carolina Alliance shareholders' meeting. The summary of the opinion of FIG set forth in this joint proxy statement/offering circular is qualified in its entirety by reference to the full text of the opinion.

The following is a summary of the analyses performed by FIG in connection with its fairness opinion. Certain analyses were confirmed in a presentation to the board of directors of Carolina Alliance by FIG. The summary set forth below does not purport to be a complete description of either the analyses performed by FIG in rendering its opinion or the presentation delivered by FIG to the board of directors of Carolina Alliance, but it does summarize all of the material analyses performed and presented by FIG.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances. In arriving at its opinion, FIG did not attribute any particular weight to any analysis and factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. FIG may have given various analyses more or less weight than other analyses. Accordingly, FIG believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, without considering all factors could create an incomplete view of the process underlying the analyses set forth in its report to the board of directors of Carolina Alliance and its fairness opinion.

In performing its analyses, FIG made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Carolina Alliance. The analyses performed by FIG are not necessarily indicative of actual value or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of FIG's analysis of the fairness of the merger consideration, from a financial point of view, to Carolina Alliance shareholders. The analyses do not purport to be an appraisal or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. FIG's opinion does not address the relative merits of the merger as compared to any other business combination in which Carolina Alliance might engage. In addition, as described above, FIG's opinion to the board of directors of Carolina Alliance was one of many factors taken into consideration by the board of directors of Carolina Alliance in making its determination to approve the merger agreement with Pinnacle.

During the course of its engagement, and as a basis for arriving at its opinion, FIG reviewed and analyzed material bearing upon the financial and operating conditions of Carolina Alliance and Pinnacle and material prepared in connection with the merger, including, among other things, the following:

- the merger agreement and terms of the merger;

- certain historical publicly available business and financial information concerning Carolina Alliance and Pinnacle, including, among other things, quarterly and annual reports filed by the parties with the FDIC and the Federal Reserve;

- the audited financial statements for Carolina Alliance and Pinnacle for the years 2013 and 2012;
- the unaudited financial statements for Carolina Alliance and Pinnacle for the year 2014;
- certain financial projections for Carolina Alliance and Pinnacle prepared by management; and
- the terms of recent merger and acquisition transactions, to the extent publicly available, involving banks and bank holding companies that FIG considered relevant.

FIG also held discussions with members of the senior management of Carolina Alliance for the purpose of reviewing future prospects of Carolina Alliance and Pinnacle, including financial forecasts related to the respective businesses, earnings, assets, liabilities and the amount of and timing of cost savings (which we refer to herein as the "Synergies") expected to be achieved as a result of the merger. FIG also performed such other analyses and considered such other factors as FIG deemed appropriate.

In rendering its opinion, FIG assumed, without independent verification, the accuracy and completeness of the publicly and non-publicly available financial and other information furnished to FIG by Carolina Alliance and Pinnacle and relied upon the accuracy of the representations and warranties of the parties contained in the merger agreement. FIG also assumed that the financial forecasts furnished to or discussed with FIG by Carolina Alliance were reasonably prepared and reflected the best currently available estimates and judgments of senior management of Carolina Alliance as to the future financial performance of Pinnacle. FIG has not made any independent evaluation or appraisal of any properties, assets or liabilities of Carolina Alliance or Pinnacle.

Comparable Transaction Analysis

FIG reviewed three groups of comparable merger transactions. The first group consisted of transactions announced between January 1, 2014 and March 1, 2015 that involved target banks headquartered in the U.S. with total assets less than $300 million, a ratio of non-performing assets to total assets of less than 2%, and trailing four quarter return on average assets greater than or equal to 0% (which we refer to herein as the "Comparable Transactions - National"). All consideration types were included. The group was limited to targets that were either bank holding companies, commercial banks or savings banks/thrifts, and transactions in which pricing was disclosed. This group consisted of the following 22 transactions:

Date Announced	Acquiror	Acquiror State	Target	Target State
02/05/15	Sunshine Bancorp Inc.	FL	Community Southern Holdings Inc.	FL
01/30/15	Community & Southern Holdings Inc.	GA	Community Business Bank	GA
01/06/15	First Merchants Corp.	IN	C Financial Corp	OH
11/20/14	Level One Bancorp	MI	Lotus Bancorp Inc.	MI
10/30/14	Riverview Financial Corp.	PA	Citizens NB of Meyersdale	PA
10/14/14	Wintrust Financial Corp.	IL	Delavan Bancshares Inc.	WI
10/14/14	First Southern Bancorp Inc.	KY	First United Inc.	KY
10/09/14	NewBridge Bancorp	NC	Premier Commercial Bank	NC
09/11/14	First Citizens Banc Corp	OH	TCNB Financial Corp.	OH
08/27/14	Mid Penn Bancorp Inc.	PA	Phoenix Bancorp Inc.	PA
07/15/14	Community Bancshares Inc.	OH	Citizens Bank of Ashville Ohio	OH
06/25/14	Olney Bancshares of Texas Inc.	TX	HBank Texas	TX
06/06/14	Charles Investment Group LLC	AL	United Group Banking Company of FL Inc.	FL
05/13/14	Sturm Financial Group Inc.	CO	First Capital West Bankshares Inc.	WY
04/24/14	Peoples Bancorp Inc.	OH	North Akron Savings Bank	OH
04/15/14	Institution for Savings in Newburyport	MA	Rockport National Bancorp Inc.	MA
04/11/14	Heritage Bancorp Inc.	TX	Nixon State Bank	TX
04/01/14	Bankwell Financial Group Inc.	CT	Quinnipiac B&TC	CT
03/24/14	JamesMark Bankshares Inc.	MO	Bank of Ash Grove	MO
03/20/14	First Citizens Bancshares Inc.	TN	Southern Heritage Bancshares	TN
03/19/14	Salisbury Bancorp Inc.	CT	Riverside Bank	NY
03/04/14	HomeTrust Bancshares Inc.	NC	Bank of Commerce	NC

The second group consisted of transactions announced between January 1, 2014 and March 1, 2015 that involved target banks located in the southeastern U.S. (AL, AR, FL, GA, LA, MS, NC, SC, TN) with total assets less than $300 million, a ratio of non-performing assets to total assets of less than 3%, and trailing four quarter return on average assets greater than 0% (which we refer to herein as the "Comparable Transactions - Southeast"). All consideration types were included. This group was also limited to targets that were either bank holding companies, commercial banks or savings banks/thrifts, and transactions in which pricing was disclosed. This group consisted of the following 13 transactions:

Date Announced	Acquiror	Acquiror State	Target	Target State
02/05/15	Sunshine Bancorp Inc	FL	Community Southern Holdings Inc	FL
01/30/15	Community & Southern Holdings Inc.	GA	Community Business Bank	GA
12/30/14	First NBC Bank Holding Co.	LA	State Investors Bancorp Inc.	LA
10/20/14	ServisFirst Bancshares Inc.	AL	Metro Bancshares Inc.	GA
10/09/14	NewBridge Bancorp	NC	Premier Commercial Bank	NC
07/30/14	Home BancShares Inc.	AR	Broward Financial Holdings Inc	FL
06/06/14	Charles Investment Group LLC	AL	United Group Banking Company of FL Inc.	FL
05/16/14	Community & Southern Holdings Inc.	GA	Alliance Bancshares Inc.	GA
04/22/14	Heritage Financial Group Inc.	GA	Alarion Financial Services	FL
03/20/14	First Citizens Bancshares Inc.	TN	Southern Heritage Bancshares	TN
03/06/14	First Bancshares Inc.	MS	BCB Holding Co.	AL
03/04/14	HomeTrust Bancshares Inc.	NC	Bank of Commerce	NC
01/14/14	TriSummit Bancorp Inc.	TN	Community National Bank	TN

The third group consisted of transactions announced between January 1, 2014 and March 1, 2015 that involved target banks headquartered in the U.S. with S-Corporation ownership structures, total assets less than $750 million, a ratio of non-performing assets to total assets of less than 5%, and trailing four quarter return on average assets greater than 0% (which we refer to herein as the "Comparable Transactions – S-Corp Targets"). All consideration types were included. This group was also limited to targets that were either bank holding companies, commercial banks or savings banks/thrifts, and transactions in which pricing was disclosed. This group consisted of the following 15 transactions:

Date Announced	Acquiror	Acquiror State	Target	Target State
01/29/15	Ameris Bancorp	GA	Merchant & Southern Banks of FL Inc	FL
01/06/15	First Merchants Corp.	IN	C Financial Corp.	OH
12/12/14	Olney Bancshares of Texas Inc.	TX	Waukomis Bancshares Inc.	OK
11/05/14	Glacier Bancorp Inc.	MT	Montana Community Banks Inc.	MT
10/28/14	Durant Bancorp Inc.	OK	Consolidated Equity Corp.	OK
09/26/14	First Busey Corp.	IL	Herget Financial Corp.	IL
08/08/14	Private Investors	OK	First of Grandfield Corp.	OK
07/30/14	Saint Martin Bancshares Inc.	LA	CPB Bancshares Inc.	LA
07/18/14	Centra Ventures Inc.	MN	Community Pride Bank Corp.	MN
07/14/14	Magnolia Banking Corp.	AR	First National Bancshares	AR
06/02/14	Independent Bank Group Inc.	TX	Houston City Bancshares Inc.	TX
05/13/14	Sturm Financial Group Inc.	CO	First Capital West Bankshares Inc.	WY
04/11/14	Heritage Bancorp Inc.	TX	Nixon State Bank	TX
02/18/14	CVB Financial Corp.	CA	American Security Bank	CA
01/08/14	BancorpSouth Inc.	MS	Ouachita Bancshares Corp.	LA

For each of the three groups (the Comparable Transactions – National, the Comparable Transactions – Southeast and the Comparable Transactions – S-Corp Targets) FIG calculated the following median multiples: the percentage of the offer value to the acquired company's tangible common equity including the exercise of PBSC Financial stock options; the offer value to the acquired company's tax adjusted last trailing four quarter net income for the Comparable Transactions – National and the Comparable Transactions – Southeast and reported (untaxed) last trailing four quarter net income for the Comparable Transactions – S-Corp Targets; the percentage of the offer value to the acquired company's total assets; and the premium of the offer value over tangible book value divided by core deposits. FIG then weighted these median multiples to estimate the acquisition value of PBSC Financial's common stock by applying each median multiple to PBSC Financial's tangible common equity, tax adjusted and reported

(untaxed) trailing four quarter earnings, total assets, and core deposits as of December 31, 2014. The results of this analysis are as follows:

Dollars in thousands, except per share amounts

Valuation Metric	PBSC Financial ($000s)	Factor Weight	Comparable Transactions – National: Median Multiple	Comparable Transactions – National: Aggregate Value ($000s)	Comparable Transactions – National: Value Per Share
Tangible common equity[1]	$20,462	50%	140.9%	$28,826	$15.40
Trailing four quarter earnings[2]	$971	30%	16.3x	$15,798	$8.44
Total assets	$154,241	10%	12.8%	$19,727	$10.54
Core deposits[3]	$95,335	10%	6.1%	$26,297	$14.05
Ranges of Values:			**Minimum**	**$15,798**	**$8.44**
			Maximum	**$28,826**	**$15.40**
Weighted Average by Factor:				**$23,755**	**$12.69**

Valuation Metric	PBSC Financial ($000s)	Factor Weight	Comparable Transactions – Southeast: Median Multiple	Comparable Transactions – Southeast: Aggregate Value ($000s)	Comparable Transactions – Southeast: Value Per Share
Tangible common equity[1]	$20,462	50%	120.0%	$24,544	$13.12
Trailing four quarter earnings[2]	$971	30%	19.9x	$19,352	$10.34
Total assets	$154,241	10%	12.5%	$19,342	$10.33
Core deposits[3]	$95,335	10%	5.9%	$26,087	$13.94
Ranges of Values:			**Minimum**	**$19,342**	**$10.33**
			Maximum	**$26,087**	**$13.94**
Weighted Average by Factor:				**$22,626**	**$12.09**

Valuation Metric	PBSC Financial ($000s)	Factor Weight	Comparable Transactions – S-Corp Targets: Median Multiple	Comparable Transactions – S-Corp Targets: Aggregate Value ($000s)	Comparable Transactions – S-Corp Targets: Value Per Share
Tangible common equity[1]	$20,462	50%	140.7%	$28,796	$15.38
Trailing four quarter earnings[2]	$1,472	30%	17.8x	$26,209	$14.00
Total assets	$154,241	10%	13.0%	$20,036	$10.70
Core deposits[3]	$95,335	10%	4.5%	$24,762	$13.23
Ranges of Values:			**Minimum**	**$20,036**	**$10.70**
			Maximum	**$28,796**	**$15.38**
Weighted Average by Factor:				**$26,741**	**$14.29**

(1) 12/31/14 equity and shares are pro forma to reflect the exercise of 26,672 PBSC Financial stock options with an exercise price of $10.00

(2) Trailing four quarter earnings are tax adjusted for modeling purposes, except for Comparable Transactions – S-Corp Targets, where reported (untaxed) earnings are used

(3) Defined as total deposits less CDs >$100,000

Source: SNL Financial

FIG noted that the merger consideration of $12.00 per share was within the range of value suggested by the comparable transaction analysis.

Discounted Cash Flow Analysis

FIG estimated the present value of PBSC Financial common stock by calculating the present value of its projected future earnings stream. PBSC Financial provided FIG with its internal projections for net income (see footnote (1) in the table below) of $0.9 million, $1.0 million, $1.1 million, $1.3 million, and $1.4 million for the years 2015, 2016, 2017, 2018 and 2019, respectively.

Dollars in thousands, except per share amounts

PBSC Financial Projections

	2015E	2016E	2017E	2018E	2019E
Total assets	**$161,953**	**$170,051**	**$178,553**	**$187,481**	**$196,855**
Growth rate	5.0%	5.0%	5.0%	5.0%	5.0%
Net income available to common shareholders[(1)]	$849	$979	$1,120	$1,273	$1,437
Earnings per share	**$0.45**	**$0.52**	**$0.60**	**$0.68**	**$0.77**
Tangible equity[(2)]	$21,311	$22,290	$23,410	$24,683	$26,120
Tangible book value per share	**$11.38**	**$11.91**	**$12.51**	**$13.19**	**$13.95**
Return on average assets	0.54%	0.59%	0.64%	0.70%	0.75%
Return on average equity	4.06%	4.49%	4.90%	5.29%	5.66%

(1) PBSC Financial earnings are tax adjusted for modeling purposes
(2) 12/31/14 equity and shares are pro forma to reflect the exercise of 26,672 PBSC Financial stock options with an exercise price of $10.00

FIG calculated the present value of PBSC Financial's projected future earnings based on a range of discount rates of 10% to 14%. The discount rates selected by FIG were intended to reflect different assumptions regarding the required rates of return for holders or prospective buyers of PBSC Financial's common stock. In order to derive the terminal value of PBSC Financial's earnings stream beyond 2019, FIG performed two separate analyses: (i) an acquisition in 2019 at ratios ranging from 110% to 150% of estimated tangible book value in the terminal year; and (ii) an acquisition in 2019 at ratios ranging from 18 to 22 times estimated earnings in the terminal year. The present value of these terminal amounts were then calculated based on the range of discount rates mentioned above. The present value of the terminal values was then added to the present value of the earnings stream for 2015 through 2019 to derive a total value based on discounted cash flows. The two analyses and the underlying assumptions yielded a range of values for PBSC Financial's stock.

Price / Tangible Book Value Terminal Multiples – Sensitivity Table[(1)]

		1.10 x	1.20 x	1.30 x	1.40 x	1.50 x
Discount Rate	**10.0%**	$9.53	$10.40	$11.26	$12.13	$13.00
	11.0%	$9.11	$9.94	$10.77	$11.59	$12.42
	12.0%	$8.71	$9.50	***$10.29***	$11.08	$11.88
	13.0%	$8.33	$9.09	$9.85	$10.60	$11.36
	14.0%	$7.97	$8.70	$9.42	$10.15	$10.87

Price / Earnings Acquisition Multiples – Sensitivity Table[(1)]

		18.0 x	19.0 x	20.0 x	21.0 x	22.0 x
Discount Rate	**10.0%**	$8.58	$9.06	$9.53	$10.01	$10.49
	11.0%	$8.20	$8.66	$9.11	$9.57	$10.02
	12.0%	$7.84	$8.28	***$8.71***	$9.15	$9.58
	13.0%	$7.50	$7.92	$8.33	$8.75	$9.17
	14.0%	$7.18	$7.58	$7.97	$8.37	$8.77

(1) Based on PBSC Financial's December 31, 2014 shares outstanding of 1,871,872, including the exercise of 26,672 PBSC Financial stock options with an exercise price of $10.00

FIG assigned the greatest significance to the terminal values represented by 130% of 2019 estimated tangible book value and 20 times 2019 estimated earnings. FIG noted that the merger consideration of $12.00 per share was higher than the range of value suggested by the discounted cash flow analysis. However, FIG also noted that the discounted cash flow analysis did not include any merger synergies.

Franchise Value Analysis

FIG used a franchise value analysis to estimate the value of PBSC Financial's common stock based on the composition of its balance sheet at December 31, 2014. The franchise value analysis involves calculating the net asset value of the company and adding a core deposit premium to the net asset value to determine the overall value of the company. In order to calculate PBSC Financial's net asset value, FIG made certain adjustments to PBSC Financial's tangible common equity. FIG estimated the potential credit adjustment for the loan portfolio to be $3.1 million and added back the allowance for loan losses of $1.9 million. FIG tax affected these adjustments using a rate of 35%, yielding a tax benefit of $0.4 million, to bring the total net credit adjustment to ($0.8 million). The deposit premium was calculated by assigning a premium to each deposit account type based on the perceived value of each type of deposit to a potential acquirer.

Dollars in thousands

		Premium	
	12/31/14 Balance	(%)	($)
Non-interest bearing deposits	$26,393	8%	$2,111
NOW accounts	$10,879	6%	$653
Savings and money market accounts	$46,326	4%	$1,853
Certificates of deposit	$39,445	0%	$0
Total deposits	**$123,043**	**3.75%**	**$4,617**

FIG selected premiums of 0% for certificates of deposit, 4% for savings and money market accounts, 6% for NOW accounts, and 8% for non-interest bearing deposits. The overall deposit premium for PBSC Financial was 3.75%, or $4.6 million. FIG noted that deposit premiums paid in bank merger transactions vary, therefore FIG selected a range of deposit premiums from 1% to 5%. The franchise value analysis suggested an overall range of value of $11.17 to $13.80 per share for PBSC Financial's common stock. The value suggested by a 3.75% deposit premium was $12.98 per share. The following chart provides a summary of the franchise value analysis:

Dollars in thousands, except per share amounts

	Amount ($000s)	Per Share
Tangible common equity[(1)]	$20,462	$10.93
Less: net credit adjustment	(780)	(0.42)
Add: deposit premium	4,617	2.47
Indicated franchise value	**$24,299**	**$12.98**
Minimum franchise value – (1% deposit premium)	$20,912	$11.17
Maximum franchise value – (5% deposit premium)	$25,834	$13.80

(1) 12/31/14 equity and shares are pro forma to reflect the exercise of 26,672 PBSC Financial stock options with an exercise price of $10.00

FIG noted that the merger consideration of $12.00 per share was within the range of value suggested by the franchise value analysis.

As described above, based upon the foregoing analyses and other investigations and assumptions set forth in its opinion, without giving specific weightings to any one factor or comparison, FIG determined that the merger consideration was fair, from a financial point of view, to Carolina Alliance shareholders. FIG's opinion and presentation to Carolina Alliance's board of directors were among the many factors taken into consideration by Carolina Alliance's board in making its determination to approve the merger, and to recommend that Carolina Alliance's shareholders approve the merger.

Opinion of PBSC Financial's Financial Advisor

On March 23, 2014, STRH delivered to PBSC Financial's board of directors a written opinion, dated March 23, 2014, to the effect that, as of the date of the opinion and based upon and subject to the conditions, limitations, qualifications and assumptions set forth in the opinion, the merger consideration (as defined below) to be received in the merger by the holders of PBSC Financial common stock was fair, from a financial point of view, to such holders of PBSC Financial common stock, other than the following holders of PBSC Financial common stock (collectively, the "Excluded Holders"): (i) PBSC Financial, Pinnacle Bank or Carolina Alliance, in each case other than shares held on behalf of third parties or as a result of debts previously contracted, (ii) holders who properly perfect their right to dissent under applicable law, and (iii) all persons who have entered into a support agreement with Carolina Alliance as described in the merger agreement. STRH has consented to the use of its opinion and related disclosure in this joint proxy statement/offering circular.

The full text of the written opinion of STRH, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion of STRH, is attached as Appendix D to this joint proxy statement/offering circular and is incorporated herein by reference. You are urged to read STRH's written opinion carefully and in its entirety. STRH's opinion was furnished solely for the use of PBSC Financial's board of directors (solely in its capacity as such) in connection with its evaluation of the merger. STRH's opinion is limited solely to the fairness, from a financial point of view, of the merger consideration to be received in the merger by the holders of PBSC Financial common stock (other than the Excluded Holders) and does not address PBSC Financial's underlying business decision to effect the merger or the relative merits of the merger as compared to any alternative business strategies or transactions that might be available with respect to PBSC Financial. The STRH opinion was not intended to be, and does not constitute, a recommendation to PBSC Financial's board of directors, PBSC Financial, any security holder of PBSC Financial or any other person or entity as to how to act or vote with respect to any matter relating to the merger or otherwise, including whether a holder of PBSC Financial common stock should elect to receive the cash consideration, the stock consideration or the mixed consideration (each as defined below). STRH's opinion was approved by an internal opinion committee of STRH authorized to approve opinions of this nature.

In connection with the delivery of its opinion, STRH conducted such reviews, analyses and inquiries as STRH deemed necessary and appropriate under the circumstances. Among other things, STRH reviewed the following:

- A draft, dated March 23, 2015, of the merger agreement, which draft contained materially the same terms, including the same financial terms, as the definitive merger agreement;
- certain business and financial information relating to PBSC Financial, Pinnacle Bank and Carolina Alliance;
- certain non-public internal and audited and unaudited financial statements of PBSC Financial, Pinnacle Bank and Carolina Alliance and certain other information relating to the historical, current and future business, financial condition, results of operations, asset quality, operating data and prospects of PBSC Financial and Carolina Alliance made available to STRH by PBSC Financial and Carolina Alliance, including certain financial projections prepared by management of PBSC Financial relating to PBSC Financial (the "Projections");
- the current and projected financial and operating performance of PBSC Financial and Carolina Alliance as compared to that of other companies with publicly traded equity securities that STRH deemed relevant;
- the publicly available financial terms of certain transactions that STRH deemed relevant; and
- current and historical market conditions and certain financial, stock market and other publicly available information relating to the business of other companies and banks whose operations STRH considered relevant.

STRH also had discussions with certain members of the management of PBSC Financial and Carolina Alliance regarding the business, financial condition, assets, results of operations, and prospects of PBSC Financial

and Carolina Alliance and the merger and undertook such other studies, analyses and investigations as STRH deemed appropriate.

STRH relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available to, discussed with or reviewed by STRH, and did not assume any responsibility with respect to such data, material and other information. STRH's role in reviewing such data, material and other information was limited solely to performing such review as STRH deemed necessary and appropriate to support its opinion. In addition, STRH assumed, at the direction of PBSC Financial and without independent verification or investigation, that the Projections were reasonably prepared in good faith on bases reflecting the best currently available information, estimates and judgments of management of PBSC Financial as to the future financial results and condition of PBSC Financial. STRH expressed no opinion with respect to the Projections or the assumptions on which they were based, or any other assumptions discussed in its opinion. STRH relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of PBSC Financial or Carolina Alliance since the respective dates of their most recent financial statements and other information, financial or otherwise, provided to STRH and that there was no information, facts or circumstances that would make any of the data, material or other information discussed with or reviewed by STRH inaccurate, incomplete or misleading.

STRH also relied upon and assumed without independent verification that (i) the representations and warranties of all parties to the merger agreement are true and correct; (ii) each party to the merger agreement will fully and timely perform all of the covenants and agreements required to be performed by such party under the merger agreement; (iii) all conditions to the consummation of the merger will be satisfied without waiver thereof; (iv) the merger will be consummated in accordance with the terms of the merger agreement without waiver, modification or amendment of any term, condition or agreement therein; and (v) in the course of obtaining any regulatory or third-party consents, approvals or agreements in connection with the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on PBSC Financial, Carolina Alliance or the expected benefits of the merger. STRH also assumed that the merger will be treated as a tax-free reorganization for federal income tax purposes.

Furthermore, in connection with its opinion, STRH was not requested to review, and STRH did not review, individual credit files, nor was STRH requested to make, and STRH did not make, any physical inspection or independent appraisal or evaluation of any of the assets, properties, facilities or liabilities (including any fixed, contingent, derivative or off-balance-sheet assets or liabilities or any portfolio securities or any collateral securing assets or securities) of PBSC Financial, Pinnacle Bank, Carolina Alliance, or any other person or entity, nor was STRH provided with any such appraisal or evaluation. In addition, STRH is not an expert in the evaluation of loan or lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect to such portfolios or for any other purpose and, accordingly, STRH has assumed, without independent investigation or verification, that PBSC Financial's and Carolina Alliance's allowances for such losses are in the aggregate adequate to cover any such losses. STRH did not undertake any independent analysis of any potential or actual litigation, regulatory action, governmental investigation, possible unasserted claims or other contingent liabilities to which PBSC Financial, Pinnacle Bank, Carolina Alliance, or any other person or entity is or may be a party or is or may be subject.

The opinion of STRH was necessarily based on financial, economic, monetary, market and other conditions as in effect on, and the data, material and other information made available to STRH as of, the date of the delivery of its opinion, March 23, 2015. STRH had and has no obligation to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring or information that has become or becomes available after the delivery of its opinion.

The opinion of STRH only addresses the fairness, from a financial point of view, of the merger consideration to be received in the merger by the holders of PBSC Financial common stock (other than the Excluded Holders), and does not address any other term, aspect or implication of the merger or any agreement, arrangement or understanding entered into in connection therewith or otherwise. STRH was not requested to opine as to, and its opinion does not express an opinion as to or otherwise address, among other things: (i) the underlying business decision of PBSC Financial, its security holders or any other person or entity to proceed with or effect the merger; (ii) the form, structure or any other portion or aspect of, the merger; (iii) the fairness of any portion, term, aspect or implication of the merger to the holders of debt of PBSC Financial, or any particular holder of securities, creditors or other constituencies of PBSC Financial, or to any other person or entity, except as expressly set forth in the last

paragraph of STRH's opinion; (iv) the relative merits of the merger as compared to any alternative business strategies that might exist for PBSC Financial or any other person or entity or the effect of any other transaction in which PBSC Financial or any other person or entity might engage; (v) whether or not Carolina Alliance, PBSC Financial, its security holders or any other person or entity is receiving or paying reasonably equivalent value in the merger; (vi) the solvency, creditworthiness, viability, ability to pay debts when due, or fair value of PBSC Financial, Carolina Alliance or any other participant in the merger, or any of their respective assets, including under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters, or the impact of the merger on such matters; (vii) the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation to or consideration payable to or received by any officers, directors or employees of any party to the merger or any class of such persons; (viii) the fairness of any term or aspect of the merger to any one class of PBSC Financial's security holders relative to any other class of PBSC Financial's security holders, including the allocation of any consideration among or within such classes; or (ix) the fairness of the cash consideration, the stock consideration and the mixed consideration relative to one another.

As specified in the engagement letter between STRH and PBSC Financial relating to the delivery of STRH's opinion, (i) STRH was engaged by PBSC Financial and its opinion was to be delivered to PBSC Financial's board of directors, (ii) nothing in the engagement letter shall be deemed to create a fiduciary or agency relationship between STRH and PBSC Financial or its shareholders, and (iii) PBSC Financial's engagement of STRH was not intended to confer on any person or entity (other than PBSC Financial, PBSC Financial's board of directors and certain indemnified parties identified in the engagement letter) any relationship, rights or remedies under or by reason of the engagement letter or as a result of the services rendered by STRH under the engagement letter. Under such circumstances, no privity is created between STRH and PBSC Financial's shareholders regarding STRH's delivery of its opinion to the PBSC Financial board of directors and, consequently, you may not rely on STRH's opinion to support any claims against STRH arising under applicable state law. The availability of "no privity" defenses to STRH and the question of whether such defenses are available under these circumstances would be resolved by a court of competent jurisdiction. In any event, the resolution of whether such defenses are available to STRH would have no effect on (i) the rights and responsibilities of PBSC Financial's board of directors under applicable state law or (ii) the rights and responsibilities of either STRH or PBSC Financial's board of directors under federal securities laws.

Furthermore, in STRH's opinion, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. STRH assumed that such opinions, counsel or interpretations have been or will be obtained from appropriate professional sources. STRH relied, with the consent of the board of directors of PBSC Financial on the assessments by PBSC Financial and the board of directors and their respective advisors as to all legal, regulatory, accounting, insurance and tax matters with respect to PBSC Financial, Carolina Alliance and the merger. STRH was not asked to, and STRH did not, offer any opinion as to any terms or conditions of the merger agreement or the form of the merger, other than as expressly set forth in the last paragraph of its opinion with respect to the merger consideration. STRH did not express any opinion as to what the value of the Carolina Alliance common stock actually will be when issued pursuant to the merger agreement or the price or range of prices or volume at which shares of PBSC Financial common stock may trade at any time, including following consummation of the merger.

The following is a summary of the material financial analyses presented by STRH to the board of directors of PBSC Financial in connection with STRH's opinion.

Some of the summaries of financial analyses below include information presented in tabular format. In order to fully understand STRH's analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses. Considering the data described below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of STRH's analyses.

Summary of Financial Terms

STRH reviewed the financial terms of the proposed merger. Under the terms of the merger agreement, each PBSC Financial common shareholder may elect to receive, subject to certain limitations and proration procedures contained in the merger agreement, (i) $12.00 in cash (the "cash consideration"), (ii) a number of shares of common stock of Carolina Alliance (the "Carolina Alliance common stock") determined based on the volume weighted average price (rounded to the nearest cent) of Carolina Alliance common stock on the OTCQX U.S.

Premier Marketplace maintained by OTC Markets Group, Inc. or, if not reported therein, in another authoritative source mutually selected by Carolina Alliance and PBSC Financial (the "Final Carolina Alliance Common Stock Price") during the 20 consecutive trading days ending on the fifth business day immediately prior to the date on which the merger is to be consummated as follows: (A) if the Final Carolina Alliance Common Stock Price is greater than $12.65, a number of shares equal to $13.80 divided by the Final Carolina Alliance Common Stock Price, (B) if the Final Carolina Alliance Common Stock Price is less than or equal to $12.65, 1.0909 shares and (C) if the Final Carolina Alliance Common Stock Price is less than $9.35, 1.0909 shares plus an additional amount in cash equal to the difference between $10.20 and the product of 1.0909 and the Final Carolina Alliance Common Stock Price (the "stock consideration"), or (iii) a combination of the cash consideration and the stock consideration (the "mixed consideration"). The aggregate cash consideration, stock consideration and mixed consideration to be received by the holders of PBSC Financial common stock in the merger is referred to as the "merger consideration". STRH calculated an approximate aggregate transaction value of $23.862 million, or $12.86 per share, as of March 23, 2015 based on the closing price of Carolina Alliance Common Stock on March 20, 2015. The aggregate transaction value will be impacted by changes in Carolina Alliance's common stock price until the closing of the merger. Based upon financial information as of or for the twelve month period ended December 31, 2014, STRH calculated the following transaction ratios:

	December 31, 2014
Transaction Value Per Share / Common Book Value Per Share	119.3%
Transaction Value Per Share / Tangible Common Book Value Per Share	119.3%
Transaction Value / 2014 Net Income	16.2x
Transaction Value / 2014 Net Income (Tax-Effected)(1)	24.9x
Transaction Value / 2014 Pre-Tax, Pre-Provision Earnings	13.7x
Core Deposit Premium	4.0%
Transaction Value / Assets	15.5%

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(1) Pre-tax earnings adjusted for the impact of an assumed 35% marginal tax rate.

Net Present Value Analysis

STRH performed an analysis that estimated the present value of the estimated future unlevered free cash flows projected to be generated by PBSC Financial through December 31, 2019. The analysis assumed that PBSC Financial performed in accordance with management's financial projections for years ended December 31, 2015 through 2019. STRH assumed these projections were reasonably prepared in good faith by PBSC Financial's management on bases reflecting the best currently available information, estimates and judgments of PBSC Financial's management.

STRH calculated the implied PBSC Financial valuation using a range of earnings and tangible common book value multiples, as well as a range of discount rates with the assumptions below:

- Assumes a base case discount rate of 13.5%, which was derived using the Ibbotson methodology, with sensitivities from 13.0% to 14.0%; and

- 2019 terminal value based on Price to Earnings (P/E) multiple of 12.5x and Price to Tangible Book Value (P/TBV) multiple of 0.93x, each of which represented the median current trading P/E multiple or P/TBV multiple of a peer group of selected exchange-traded companies that STRH deemed relevant and comparable to PBSC Financial as described below. STRH also sensitized the terminal year P/E multiple from 11.0x – 14.3x (representing the P/E multiples at the 25th percentile and 75th percentile, respectively, of the peer group) and the terminal year P/TBV multiple from 0.85x - 1.02x (representing the P/TBV multiples at the 25th percentile and 75th percentile, respectively, of the peer group).

For purposes of calculating the P/E and P/TBV multiples described above, STRH used a peer group consisting of all exchange-traded banks headquartered in the Southeast, Midwest and Mid-Atlantic regions of the U.S. with the following characteristics (excluding targets of announced mergers):

- Total assets, for the most recent quarter reported, of between $250 million and $500 million;
- Ratio of nonperforming assets to total assets, for the most recent quarter reported, between 0.0% and 3.0%;
- Return on average assets for the last twelve months ended as of the most recent quarter reported between 0.25% and 1.00%;
- Ratio of tangible common equity to tangible assets for the most recent quarter reported between 7.0% and 10%; and
- Three month average daily trading volume greater than 100 shares.

Terminal Price / Earnings in 2019

Discount Rate	11.0x	12.5x	14.3x
13.0%	$4.89	$5.53	$6.33
13.5%	$4.79	$5.41	$6.20
14.0%	$4.69	$5.30	$6.07

This analysis indicated an implied per share reference range for PBSC Financial of $4.69 to $6.33, with a median implied valuation per share of $5.41, as compared to the implied valuation per share in the merger of $12.86.

Terminal Price / TBV in 2019

Discount Rate	0.85x	0.93x	1.02x
13.0%	$6.50	$7.08	$7.76
13.5%	$6.37	$6.93	$7.60
14.0%	$6.24	$6.79	$7.45

This analysis indicated an implied per share reference range for PBSC Financial of $6.24 to $7.76, with a median implied valuation per share of $6.93, as compared to the implied valuation per share in the merger of $12.86.

Selected Peer Group Analysis

STRH reviewed and compared financial data and trading multiples for PBSC Financial with a peer group of selected exchange-traded companies that STRH deemed relevant and comparable to PBSC Financial. This peer group consisted of all exchange-traded banks headquartered in the Southeast, Midwest and Mid-Atlantic regions of the U.S. with the following characteristics (excluding targets of announced mergers):

- Total assets, for the most recent quarter reported, of between $150 million and $400 million;
- Ratio of nonperforming assets to total assets, for the most recent quarter reported, between 0.0% and 3.0%;
- Return on average assets for the last twelve months ended as of the most recent quarter reported between 0.25% and 1.00%;

- Ratio of tangible common equity to tangible assets for the most recent quarter reported between 10.0% and 17%; and

- Three month average daily trading volume greater than 100 shares.

For the selected exchange-traded companies, STRH analyzed, among other things, financial performance, capital ratios and asset quality, for the most recent quarter reported or the twelve months ended as of the most recent quarter end, in addition to current market pricing analysis. The tables below set forth the 25th percentile, median and 75th percentile operating metrics, capital ratios, asset quality and market pricing of the selected companies.

Financial Performance	PBSC Financial (1)	25th Percentile	Median	75th Percentile
ROAA (LTM)	0.62%	0.56%	0.73%	0.88%
ROAE (LTM)	4.88%	5.72%	6.70%	8.14%

(1) Pre-tax earnings adjusted for the impact of an assumed 35% marginal tax rate.

Capital Ratio (MRQ)	PBSC Financial	25th Percentile	Median	75th Percentile
TCE / TA	12.97%	10.33%	10.76%	11.49%

Asset Quality (MRQ)	PBSC Financial	25th Percentile	Median	75th Percentile
NPA's / Assets	1.12%	0.40%	1.09%	2.21%

Current Market Pricing	PBSC Financial	25th Percentile	Median	75th Percentile
Transaction Value Per Share / Tangible Book Value Per Share	1.19x	0.80x	0.86x	0.99x
Transaction Value Per Share / LTM EPS	24.9x(1)	12.2x	14.6x	15.8x

(1) Pre-tax earnings adjusted for the impact of an assumed 35% marginal tax rate.

STRH applied each of the multiple ranges set forth in the table above entitled "Current Market Pricing" to PBSC Financial's financial data as of December 31, 2014 to calculate an implied per share valuation for PBSC Financial. STRH then calculated the average of the two implied per share valuations to generate a per share reference range for PBSC Financial of $7.50 to $9.46, with a median implied valuation per share of $8.40, as compared to the implied valuation per share in the merger of $12.86.

No companies used in the analyses described above are identical to PBSC Financial, Carolina Alliance or the pro forma combined company. Accordingly, an analysis of these results involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Selected Precedent Transactions Analysis

STRH reviewed and analyzed certain financial data related to 13 completed bank mergers and acquisitions announced between January 29, 2013 and August 27, 2014. These transactions involved stock consideration greater than 75% of the total consideration and target banks based in the United States with the following characteristics:

- Total assets, for the most recent quarter reported, of between $50 million and $400 million;
- Ratio of nonperforming assets to total assets, for the most recent quarter reported, between 0.0% and 3.0%;
- Return on average assets for the last twelve months ended as of the most recent quarter reported between 0.25% and 1.00%; and
- Ratio of total equity to total assets for the most recent quarter reported between 10.0% and 17.0%.

These transactions (listed by announcement date in order from most recent to the oldest) were as follows:

Acquiror	Target
Mid Penn Bancorp, Inc.	Phoenix Bancorp, Inc.
American National Bancshares, Inc.	MainStreet BankShares, Inc.
Home BancShares, Inc.	Broward Financial Holdings, Inc.
BNC Bancorp	Harbor Bank Group, Inc.
Peoples Bancorp Inc.	Ohio Heritage Bancorp, Inc.
Salisbury Bancorp, Inc.	Riverside Bank
Franklin Financial Network, Inc.	MidSouth Bank
New Century Bancorp, Inc.	Select Bancorp, Inc.
Carolina Alliance Bank	Forest Commercial Bank
First ULB Corp.	Union Financial Corporation
Commercial Bancshares, Inc.	City State Bancshares, Inc.
Southern Bancshares (N.C.), Inc.	Heritage Bancshares, Inc.
Lakeland Bancorp, Inc.	Somerset Hills Bancorp

STRH calculated the transaction multiples implied by the selected transactions listed above. The results of the calculations are set forth in the table below.

	Selected Transactions		
Transaction Multiples	25th Percentile	Median	75th Percentile
Transaction Value / LTM Earnings	17.1x	20.1x	24.7x
Transaction Value / Stated TBV	90.4%	108.8%	146.9%

STRH applied each of these multiple ranges to PBSC Financial's financial data as of December 31, 2014 to calculate an implied per share valuation for PBSC Financial. STRH then calculated the average of the two implied per share valuations to generate a per share reference range for PBSC Financial of $9.30 to $14.32, with a median implied valuation per share of $11.08, as compared to the implied valuation per share in the merger of $12.86.

No companies used in the analysis described above are identical to PBSC Financial, Carolina Alliance or the pro forma combined company. Accordingly, an analysis of these results involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Relative Financial Contribution Analysis

STRH analyzed the relative contribution of each of PBSC Financial and Carolina Alliance to the pro forma balance sheet and income statement of the combined company following the merger. STRH compared the relative contribution of these items with the estimated pro forma ownership percentage PBSC Financial shareholders would represent in Carolina Alliance pro forma assuming 100% stock elections by PBSC Financial shareholders.

	Financial Contribution	
	Carolina Alliance(1)	**PBSC Financial**
Balance Sheet (as of December 31, 2014):		
Assets	73.0%	27.0%
Gross Loans	72.8%	27.2%
Deposits	73.3%	26.7%
Equity Capital	72.3%	27.7%
Tangible Equity Capital	69.8%	30.2%
Median	72.8%	27.2%
Earnings:		
2014 Net Income(2)	86.5%	13.5%
Net Income(2)(3)	75.6%	24.4%
Pre-Tax, Pre-Provision 2014 Net Income(4)	73.3%	26.7%
Pre-Tax, Pre-Provision Net Income(3)(4)	77.8%	22.2%
Median	76.7%	23.3%
Transaction Structure:		
Common Share Ownership (100% Stock Transaction)	73.8%	26.2%

(1) Figures based on guidance from Carolina Alliance management and regulatory data.

(2) Pre-tax earnings adjusted for the impact of an assumed 35% marginal tax rate.

(3) For the quarter ended December 31, 2014.

(4) Excludes one-time items.

STRH then calculated the implied per share valuations for PBSC Financial that would be necessary for PBSC Financial's shareholders to achieve a level of ownership in the combined company at the same level as PBSC Financial's financial contribution to the pro forma balance sheet and income statement of the combined company following the merger using the median balance sheet and income statement contributions set forth in the tables above with sensitivities of plus and minus 2%. In making these calculations, STRH assumed 100% stock elections by PBSC Financial shareholders. The results of the calculations are set forth in the tables below.

Balance Sheet

Implied Ownership	**25.2%**	**27.2%**	**29.2%**
CRLN Current Shares Outstanding	4,554,264	4,554,264	4,554,264
Total Pro Forma Shares	6,091,396	6,258,821	6,435,710
Shares Issued to PBSC Financial	1,537,132	1,704,557	1,881,446
Value of CRLN Shares(1)	$11.99	$11.99	$11.99
Aggregate Offer Value	$18,430,209	$20,437,639	$22,558,538
PBSC Financial Implied Value Per Share	$9.95	$11.04	$12.18

(1) Based on the closing price of Carolina Alliance common stock on March 20, 2015.

Income Statement

Implied Ownership	**21.3%**	**23.3%**	**25.3%**
CRLN Current Shares Outstanding	4,554,264	4,554,264	4,554,264
Total Pro Forma Shares	5,785,821	5,936,662	6,095,578
Shares Issued to PBSC Financial	1,231,557	1,382,398	1,541,314
Value of CRLN Shares(1)	$11.99	$11.99	$11.99
Aggregate Offer Value	$14,766,367	$16,574,949	$18,480,358
PBSC Financial Implied Value Per Share	$7.97	$8.95	$9.98

(1) Based on the closing price of Carolina Alliance common stock on March 20, 2015.

This analysis with respect to the pro forma balance sheet of the combined company indicated an implied per share reference range for PBSC Financial of $9.95 to $12.18, with a median implied valuation per share of $11.04, as compared to the implied valuation per share in the merger of $12.86. This analysis with respect to the income statement of the combined company indicated an implied per share reference range for PBSC Financial of $7.97 to $9.98, with a median implied valuation per share of $8.95, as compared to the implied valuation per share in the merger of $12.86.

Miscellaneous

This summary of the analyses is not a complete description of STRH's opinion or the analyses underlying, and factors considered in connection with, STRH's opinion and reviewed with PBSC Financial's board of directors. The preparation of a fairness opinion is a complex analytical process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying STRH's opinion. In arriving at its fairness opinion, STRH considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis. Rather, STRH reached its fairness opinion on the basis of its experience and professional judgment after considering the results of all of its analyses.

No company or transaction used in the analyses described above is directly comparable to PBSC Financial, Carolina Alliance or the merger. In addition, such analyses do not purport to be appraisals, nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts or projections of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. Because the analyses described above are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, neither PBSC Financial nor STRH or any other person assumes responsibility if future results are materially different from those forecast.

The merger consideration was determined through arms' length negotiations between PBSC Financial and Carolina Alliance and was approved by PBSC Financial's Board of Directors. STRH did not recommend any specific consideration to PBSC Financial, or that any specific amount or type of consideration constituted the only appropriate consideration for the merger.

Information about SunTrust Robinson Humphrey, Inc.

STRH acted as financial advisor to PBSC Financial in connection with the merger and will receive a fee for its services, currently estimated to be approximately $291,000 in the aggregate, $125,000 of which became payable upon STRH's delivery of its opinion (the "Opinion Fee"), regardless of the conclusion reached therein, and the remainder of which is contingent upon completion of the merger. PBSC Financial's payment of the Opinion Fee to STRH was not contingent on the consummation of the merger. In addition, PBSC Financial agreed to reimburse certain of STRH's expenses and to indemnify STRH and certain related parties for certain liabilities arising out of STRH's engagement. STRH and its affiliates (including SunTrust Bank) may have in the past provided and may in the future provide investment banking and other financial services to PBSC Financial and its affiliates (and Carolina Alliance and its affiliates) for which STRH and its affiliates have received and would expect to receive compensation.

STRH is a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, STRH and its affiliates (including SunTrust Bank) may acquire, hold or sell, for its and its affiliates' accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of PBSC Financial, Carolina Alliance, their respective affiliates and any other party that may be involved in the merger, as well as provide investment banking and other financial services to such persons or entities, including for which STRH and its affiliates would expect to receive compensation. In addition, STRH and its affiliates (including SunTrust Bank) may have other financing and business relationships with PBSC Financial, Carolina Alliance, their respective affiliates and any other person or entity that may be involved with the merger.

Merger Consideration

Under the merger agreement, PBSC Financial shareholders will receive one of the following forms of payment of merger consideration in exchange for each of their shares of PBSC Financial common stock (subject to the limitations and adjustments discussed below):

- $12.00 in cash (the "cash consideration");
- A number of shares of Carolina Alliance common stock to be determined based upon the exchange ratio (the "stock consideration"), plus the Additional Cash Amount, if any; or
- A combination of cash consideration and stock consideration in such proportions as requested by the shareholder (the "mixed consideration").

The exchange ratio will be determined based on the Final Carolina Alliance Stock Price. The exchange ratio will be 1.0909 if the Final Carolina Alliance Stock Price is at or below $12.65. If the Final Carolina Alliance Stock Price is above $12.65, then the exchange ratio will be equal to $13.80 divided by the Final Carolina Alliance Stock Price. If the Final Carolina Alliance Stock Price is below $9.35, then each share of PBSC Financial common stock eligible to receive the stock consideration will be exchanged for 1.0909 shares of Carolina Alliance common stock plus the Additional Cash Amount.

The merger agreement provides that Carolina Alliance will issue shares of Carolina Alliance common stock for 80% of the non-dissenting shares of PBSC Financial common stock outstanding on the effective date of the merger and pay cash for the remaining 20% of the non-dissenting shares of PBSC Financial common stock outstanding (subject to Carolina Alliance's right, but not obligation, to allow up to 60% of the consideration to be paid in cash if so elected by PBSC Financial shareholders). PBSC Financial shareholders are entitled to elect to receive the cash consideration, the stock consideration, or the mixed consideration, in whole share increments, with respect to the holders' shares of PBSC Financial common stock. In other words, by promptly completing and timely delivering the election form, you can elect to receive cash for your shares of PBSC Financial common stock, shares of Carolina Alliance common stock for your shares of PBSC Financial common stock, or cash and shares of Carolina Alliance common stock in such proportions as you choose for your shares of PBSC Financial common stock. As discussed below, however, you may not receive the type of merger consideration you elect.

If shareholders of PBSC Financial in the aggregate elect the form of consideration so that either cash would be paid as merger consideration for more than 20% of the outstanding non-dissenting shares of PBSC Financial common stock or shares of Carolina Alliance common stock would be issued as merger consideration for more than 80% of the outstanding non-dissenting shares of PBSC Financial common stock (subject to Carolina Alliance's right, but not obligation, to increase the cash consideration up to 60% and decrease the stock consideration to no lower than 60% if so elected by PBSC Financial shareholders), the merger agreement provides a method to reallocate cash or stock so that the merger consideration will not exceed either threshold. For a description of the reallocation method, see "Proposal No. 1—The Merger Proposal—Allocation of the Merger Consideration." Accordingly, you may receive less cash and more shares, or more shares and less cash than you elect. Either of these events is likely to result in different tax consequences from those that would have resulted had you received the exact form of merger consideration you elected.

No fractional shares of Carolina Alliance common stock will be issued in connection with the merger. Instead, cash will be paid for any fraction of a share of Carolina Alliance common stock to which any PBSC Financial shareholder would otherwise be entitled upon completion of the merger. The cash paid will be an amount equal to the fraction of a share of Carolina Alliance common stock otherwise issuable upon conversion multiplied by $12.00.

Neither PBSC Financial nor Carolina Alliance (or their respective boards of directors) nor their financial advisors make any recommendation as to whether you should choose the cash consideration, stock consideration, or mixed consideration for your shares of PBSC Financial common stock. You should consult with your own financial and tax advisors about this decision.

Shares of Carolina Alliance common stock are quoted on the OTCQX market place operated by OTC Markets Group, Inc., under the symbol "CRLN." On March 20, 2015, which was the last trading day before the announcement of the merger, the price of a share of Carolina Alliance common stock closed at $11.99 per share, and on May 1, 2015, the latest practicable date before mailing out this joint proxy statement/offering circular, the price of a share of Carolina Alliance common stock closed at $11.58 per share. You should be aware that the market value of shares of Carolina Alliance common stock will fluctuate, and neither Carolina Alliance nor PBSC Financial can give you any assurance as to what the price of shares of Carolina Alliance common stock will be when the merger becomes effective. We urge you to obtain information on the market value of shares of Carolina Alliance common stock that is more recent than that provided in the joint proxy statement/offering circular. See "Summary—Market Prices of Carolina Alliance and PBSC Financial Common Stock; Dividend Payments" on page 9.

Illustration of Allocation of the Merger Consideration

The following table illustrates calculations of consideration at different prices for Carolina Alliance common stock that would be received by a holder of 100 shares of PBSC Financial common stock depending on whether the shareholder elected the cash consideration, the stock consideration, or a mixed consideration. These calculations do not take into consideration the effects of taxation. See "Proposal No. 1—The Merger Proposal—Material Federal Income Tax Consequences" on page 65.

The assumed Final Carolina Alliance Stock Price values set forth in the table have been included for representative purposes. We cannot predict what the closing value for shares of Carolina Alliance common stock will be or what the value of the shares of Carolina Alliance common stock to be issued in the merger will be at or following the merger becoming effective.

	Mixed Election [4]	All Stock Election	All Cash Election
Assuming a $12.00 closing value [1]			
Value of cash consideration received	$ 240	$ -	$ 1,200
Value of stock consideration received	1,047	1,309	-
Value of total consideration received	$ 1,287	$ 1,309	$ 1,200
Assuming a $14.00 closing value [2]			
Value of cash consideration received	$ 240	$ -	$ 1,200
Value of stock consideration received	1,104	1,380	-
Value of total consideration received	$ 1,344	$ 1,380	$ 1,200
Assuming a $9.00 closing value [3]			
Value of cash consideration received	$ 271	$ 38	$ 1,200
Value of stock consideration received	785	982	-
Value of total consideration received	$ 1,056	$ 1,020	$ 1,200

[1] An illustrative value of a Final Carolina Alliance Stock Price based on the actual closing value of $11.99 the day prior to the date of merger agreement.

[2] An illustrative value of a Final Carolina Alliance Stock Price above $12.65.

[3] An illustrative value of a Final Carolina Alliance Stock Price below $9.35.

[4] Assumes an election of 20% cash and 80% stock.

Election of the Form of Payment of the Merger Consideration

Shortly after the effective time of the merger, Carolina Alliance will deliver or mail to PBSC Financial shareholders an election form and instructions for making an election as to the form of merger consideration preferred to be received in the merger, subject to the allocation procedures described below. Upon receipt of the election form, each PBSC Financial shareholder should complete, date, and sign the election form and return it

promptly in the prepaid, pre-addressed envelope provided with the election form. If any PBSC Financial shareholders do not make an election by 4:00 p.m. local time on the date set forth in the instructions on the election form, such shareholders will be deemed not to have made an election and the exchange agent will choose the type of merger consideration constituting the per share purchase price to distribute to such non-electing shareholders according to the allocation procedures.

Elections will be properly made if the election form is accompanied by one or more certificates representing the shares of PBSC Financial common stock covered by the election form, or the guaranteed delivery of such certificates. Elections may be revoked or changed upon written notice to the exchange agent before the election deadline. If a PBSC Financial shareholder revokes the election form and does not properly make a new election by the election deadline, the PBSC Financial shareholder will be deemed to have not made an election with respect to the shares covered by the revoked election form, and the exchange agent will determine the type of consideration to be received.

The exchange agent will have reasonable discretion to determine whether any election, revocation, or change has been properly or timely made and to disregard immaterial defects in the election form, and any good faith decision of the exchange agent regarding such matters will be conclusive and binding. Neither Carolina Alliance nor the exchange agent is obligated to notify any person of any defect in an election form.

Allocation of the Merger Consideration

Except as described below, the merger agreement limits the aggregate number of shares of PBSC Financial common stock which Carolina Alliance will exchange for cash to 20% of the total outstanding non-dissenting shares of PBSC Financial common stock and the merger agreement limits the aggregate number of shares of PBSC Financial common stock which Carolina Alliance will exchange for shares of Carolina Alliance common stock to 80% of the total outstanding non-dissenting shares of PBSC Financial common stock.

If the stock consideration elected by PBSC Financial shareholders in the aggregate exceeds 80% of the total outstanding non-dissenting shares of PBSC Financial common stock, then shareholders choosing cash consideration and shareholders who did not make an election will receive cash consideration, and each shareholder who chose the stock consideration will receive (i) a number of shares of Carolina Alliance common stock equal to the exchange ratio times the product obtained by multiplying the number of shares of PBSC Financial common stock as to which the shareholder chose the stock election by a fraction, the numerator of which is 80% of the total outstanding non-dissenting shares of PBSC Financial common stock and the denominator of which is the aggregate number of shares of PBSC Financial common stock elected by all PBSC Financial shareholders to be converted into shares of Carolina Alliance common stock, and (ii) cash for the remaining amount of shares of PBSC Financial common stock held by the shareholder.

If the cash consideration elected by PBSC Financial shareholders in the aggregate exceeds 20% of the total outstanding non-dissenting shares of PBSC Financial common stock, then Carolina Alliance has the right, but not the obligation, to increase the number of shares of PBSC Financial common stock which Carolina Alliance will exchange for cash to an amount that is greater than 20% of the total outstanding non-dissenting shares of PBSC Financial common stock; provided, that such acceptance does not cause the aggregate value of all cash paid to holders of PBSC Financial common stock to exceed 60% of the aggregate value of the consideration being paid by Carolina Alliance to holders of PBSC Financial common stock. If Carolina Alliance does not exercise such discretion, then PBSC Financial shareholders choosing stock consideration and shareholders who did not make an election will receive the stock consideration, shareholders holding shares of PBSC Financial common stock acquired through the exercise of stock options after the date of the merger agreement (which we refer to herein as the "Option Cash Election Shares") will receive the cash consideration, and each shareholder who chose the cash consideration (other than shareholders who hold Option Cash Election Shares) will receive (i) $12.00 times the product obtained by multiplying the number of shares of PBSC Financial common stock (other than the Option Cash Election Shares) as to which the shareholder chose the cash election by a fraction, the numerator of which is 20% of the total outstanding non-dissenting shares of PBSC Financial common stock and the denominator of which is the aggregate number of shares of PBSC Financial common stock elected by all PBSC Financial shareholders to be converted into cash, and (ii) shares of Carolina Alliance common stock for the remaining amount of shares of PBSC Financial common stock held by the shareholder.

If the stock consideration elected by the PBSC Financial shareholders in the aggregate does not exceed 80% of the total outstanding non-dissenting shares of PBSC Financial common stock and the cash consideration elected by the PBSC Financial shareholders in the aggregate does not exceed 20% of the total outstanding non-dissenting shares of PBSC Financial common stock, then shareholders electing the cash consideration will receive all cash in exchange for their shares of PBSC Financial common stock, shareholders electing the stock consideration will receive all stock in exchange for their shares of PBSC Financial common stock, shareholders electing the mixed consideration will receive a combination of cash consideration and stock consideration in exchange for their shares of PBSC Financial common stock, and the shareholders making no election will receive either the cash consideration, stock consideration, or mixed consideration such that the aggregate number of shares of PBSC Financial common stock to be exchanged for cash is 20% of the total outstanding non-dissenting shares of PBSC Financial common stock and the aggregate number of shares of PBSC Financial common stock to be exchanged for stock is 80% of the total outstanding non-dissenting shares of PBSC Financial common stock.

Effective Time of the Merger

If the merger agreement is approved by the requisite votes of the shareholders of PBSC Financial and Carolina Alliance and all other required governmental and other consents and approvals are received, and if the other conditions to the obligations of the parties to consummate the merger are satisfied or waived (as permitted), the merger will be consummated and effected on the date and at the time the Articles of Merger reflecting the merger are filed with the Secretary of State of South Carolina. Unless otherwise mutually agreed upon in writing by their respective chief executive officers, Carolina Alliance and Pinnacle will use their reasonable efforts to cause the effective time of the merger to occur on the last or first business day of a calendar month immediately following the last of the following dates to occur:

- the effective date (including expiration of any applicable waiting period) of the last required consent of any regulatory authority having authority over and approving or exempting the merger;
- the date on which PBSC Financial shareholders approve the merger agreement; or
- the date on which Carolina Alliance shareholders approve the merger agreement.

Assuming satisfaction of all of the conditions to consummation of the merger, the merger is expected to be made effective in the fourth quarter of 2015.

Either of us may terminate the merger agreement prior to the effective time, under several circumstances. See "Proposal No. 1—The Merger Proposal— Conditions to Consummation" and "— Amendment, Waiver, and Termination."

Exchange of Certificates

Shortly after the effective time of the merger, Carolina Alliance will mail the election form and instructions to each record holder of PBSC Financial common stock for use in effecting the surrender and cancellation of those certificates in exchange for cash and/or Carolina Alliance common stock. Risk of loss and title to the certificates will remain with the holder until proper delivery of such certificates to Carolina Alliance or its exchange agent by former PBSC Financial shareholders. PBSC Financial shareholders should not surrender their certificates for exchange until they receive the election form and instructions from Carolina Alliance. Shortly after the effective time of the merger, and pursuant to the instructions of Carolina Alliance's exchange agent, each holder of shares of PBSC Financial common stock issued and outstanding at the effective time must surrender the certificate or certificates representing their shares to Carolina Alliance. As soon as reasonably practicable after the effective time of the merger, PBSC Financial shareholders will receive the consideration to which they are entitled under the merger agreement, together with any undelivered dividends or distributions in respect of such shares (without interest). Carolina Alliance will not be obligated to deliver the consideration to which any former holder of PBSC Financial common stock is entitled until the holder surrenders the certificate or certificates representing his or her shares for exchange and until the effective time of the merger. The certificate or certificates so surrendered must be duly endorsed as Carolina Alliance may require. Carolina Alliance will not be liable to a holder of PBSC Financial common stock for any property delivered in good faith to a public official pursuant to any applicable abandoned property law.

If you do not timely submit the election form along with your certificates of PBSC Financial common stock, Carolina Alliance's exchange agent will mail to you a letter of transmittal with instructions for submitting your PBSC Financial common stock certificate in exchange for Carolina Alliance common stock or the cash consideration of $12.00 per share. At that time, you will need to carefully review the instructions, complete the materials enclosed with the instructions and return the materials along with your PBSC Financial stock certificate(s). Whether you will receive Carolina Alliance common stock and/or cash will depend on the election of other PBSC Financial shareholders (see "Proposal No. 1—The Merger Proposal—Allocation of the Merger Consideration"). As soon as reasonably practicable after receipt of the properly completed the election form and your PBSC Financial stock certificate(s), Carolina Alliance's exchange agent will mail a statement of a book entry of Carolina Alliance common stock or a check (or a book entry statement and a check) for the merger consideration. No interest will be paid on any cash payment.

Carolina Alliance or its exchange agent will maintain a book entry list of Carolina Alliance common stock to which each former PBSC Financial shareholder is entitled. Certificates evidencing Carolina Alliance common stock into which the shareholder's PBSC Financial common stock has been converted will not be issued. Carolina Alliance's exchange agent will deliver a statement of such book entry and other information as required by law within a reasonable time following the surrender of a PBSC Financial certificate.

After the effective time of the merger, record holders of certificates that represented outstanding PBSC Financial common stock immediately prior to the effective time of the merger will have no rights with respect to the certificates other than the right to surrender the certificates and receive in exchange the aggregate number of whole shares of Carolina Alliance common stock (issued in book entry form) and the cash consideration to which the holder is entitled pursuant to the merger agreement.

Book entry shares representing shares of Carolina Alliance common stock will be dated the effective date of the merger and will entitle the holders to dividends, distributions and all other rights and privileges of a Carolina Alliance shareholder from the effective date. Until the certificates representing PBSC Financial common stock are surrendered for exchange, holders of such certificates will not receive the cash and/or stock consideration or dividends or distributions on Carolina Alliance common stock into which such shares have been converted. When the certificates are surrendered to the exchange agent, any unpaid dividends or other distributions will be paid without interest. Carolina Alliance has the right to withhold dividends or any other distributions on its shares until the PBSC Financial stock certificates are surrendered for exchange.

In addition, holders of certificates that represented outstanding PBSC Financial common stock immediately prior to the effective time of the merger will be entitled to vote after the effective time of the merger at any meeting of Carolina Alliance shareholders the number of whole shares of Carolina Alliance common stock into which such shares have been converted, even if such holder has not surrendered such certificates for exchange as set forth above.

Carolina Alliance shareholders will not be required to exchange certificates representing their shares of Carolina Alliance common stock or otherwise take any action after the merger is completed.

Material Federal Income Tax Consequences

The following summary describes the anticipated material U.S. federal income tax consequences of the merger to holders of PBSC Financial common stock. The following summary is based upon the Internal Revenue Code (the "Code"), its legislative history, existing and proposed regulations thereunder and published rulings and decisions, all as currently in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Tax considerations under state, local or federal laws other than those pertaining to income tax, or federal laws applicable to alternative minimum taxes, are not addressed in this joint proxy statement/offering circular.

The parties intend for the merger to be treated as a "reorganization" for U.S. federal income tax purposes. Carolina Alliance and PBSC Financial have not sought and will not seek any ruling from the IRS regarding any matters relating to the merger and, as a result, there can be no assurance that the IRS will not assert, or that a court would not sustain, a position contrary to any of the conclusions set forth below.

The actual tax consequences of the merger to you may be complex and will depend on your specific situation and on factors that are not within the control of Carolina Alliance or PBSC Financial. You should consult with your own tax advisor as to the tax consequences of the merger in your particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local or foreign and other tax laws and of changes in those laws.

Assuming the merger does qualify as a "reorganization" within the meaning of Section 368(a) of the Code, the material federal income tax consequences of the merger to a PBSC Financial shareholder will be as follows:

Exchange Solely for Cash. In general, if pursuant to the merger a PBSC Financial shareholder exchanges its PBSC Financial common stock solely for cash, that PBSC shareholder will recognize gain or loss equal to the difference between the amount of cash received and its adjusted tax basis in its shares of PBSC Financial common stock surrendered, which gain or loss generally will be long-term capital gain or loss if the PBSC Financial shareholder's holding period with respect to its PBSC Financial common stock surrendered is more than one year.

Exchange Solely for Carolina Alliance Common Stock. If pursuant to the merger a PBSC Financial shareholder exchanges its PBSC Financial common stock solely for shares of Carolina Alliance common stock, that PBSC Financial shareholder will not recognize any gain or loss except in respect of cash received in lieu of any fractional share of Carolina Alliance common stock (as discussed below). The aggregate adjusted tax basis of the shares of Carolina Alliance common stock received in the merger by such PBSC Financial shareholder will be equal to the aggregate adjusted tax basis of the shares of PBSC Financial common stock surrendered for the Carolina Alliance common stock (reduced by the tax basis allocable to any fractional share of Carolina Alliance common stock for which cash is received), and the holding period of the Carolina Alliance common stock will include the period during which the shares of PBSC Financial common stock were held. If a PBSC Financial shareholder has differing bases or holding periods in respect of its shares of PBSC Financial common stock, it should consult its tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of Carolina Alliance common stock received in the exchange.

Exchange for Carolina Alliance Common Stock and Cash. If pursuant to the merger a PBSC Financial shareholder exchanges its PBSC Financial common stock for a combination of Carolina Alliance common stock and cash, that PBSC Financial shareholder will generally recognize gain, but not loss, in an amount equal to the lesser of: (i) the amount of cash the PBSC Financial shareholder receives in exchange for its PBSC Financial common stock in the merger (excluding any cash received in lieu of fractional shares of Carolina Alliance common stock) and (ii) the excess, if any, of (a) the sum of the amount of cash treated as received in exchange for PBSC Financial common stock in the merger (excluding any cash received in lieu of fractional shares of Carolina Alliance common stock) plus the fair market value of Carolina Alliance common stock (including the fair market value of any fractional share) received in the merger, over (b) the PBSC Financial shareholder's tax basis in its PBSC Financial common stock exchanged. If a PBSC Financial shareholder acquired different blocks of PBSC Financial common stock at different times or at different prices, it should consult its tax advisor regarding the manner in which gain or loss should be determined. Any recognized gain will generally be long-term capital gain if, as of the effective date of the merger, a PBSC Financial shareholder's holding period with respect to the surrendered PBSC Financial common stock exceeds one year. The aggregate tax basis of the Carolina Alliance common stock a PBSC Financial shareholder receives as a result of the merger will be the same as its aggregate tax basis in the PBSC Financial common stock it surrenders in the merger, decreased by the amount of cash it receives in exchange for such PBSC Financial common stock (excluding any cash received in lieu of a fractional share of Carolina Alliance common stock) and increased by the amount of gain, if any, the PBSC Financial shareholder recognizes in the merger (excluding any gain recognized with respect to fractional share of Carolina Alliance common stock deemed sold in the merger). The holding period of the Carolina Alliance common stock received by a PBSC Financial shareholder as a result of the merger will include the holding period of PBSC Financial common stock it surrendered in the merger.

Cash Instead of Fractional Shares. If a PBSC Financial shareholder receives cash in the merger instead of a fractional share interest in Carolina Alliance common stock, the PBSC Financial shareholder will be treated as having received such fractional share in the merger, and then as having received cash in exchange for such fractional share. Gain or loss would be recognized in an amount equal to the difference between the amount of cash received and the PBSC Financial shareholder's adjusted tax basis allocable to such fractional share. Except as described in the subsection entitled "Dividend Treatment" below, this gain or loss will generally by a capital gain or loss, and

will be long-term capital gain or loss if, as of the effective date of the merger, the PBSC Financial shareholder has held its shares of PBSC Financial common stock for more than one year.

Dividend Treatment. All or part of the gain that a particular shareholder of PBSC Financial common stock recognizes could be treated as dividend income rather than capital gain if (i) such PBSC shareholder is a significant shareholder of PBSC Financial or (ii) its percentage ownership, taking into account constructive ownership rules, in PBSC Financial after the merger is not meaningfully reduced from what its percentage ownership would have been if it had received solely shares of Carolina Alliance common stock rather than a combination of cash and shares of Carolina Alliance common stock in the merger. This could happen, for example, because of ownership of additional shares of Carolina Alliance common stock by such PBSC Financial shareholder, ownership of shares of Carolina Alliance common stock by a person related to such PBSC Financial shareholder or a share repurchase by Carolina Alliance from other holders of Carolina Alliance common stock. Because the possibility of dividend treatment depends primarily upon the particular circumstances of a PBSC Financial shareholder, including the application of certain constructive ownership rules, PBSC Financial shareholders should consult their own tax advisors regarding the potential tax consequences of the merger to them.

Dissenting Shareholders' Rights. If a PBSC Financial shareholder perfects its dissenters' rights with respect to its shares of PBSC Financial common stock, such PBSC Financial shareholder will generally recognize capital gain or loss equal to the difference between its tax basis in those shares and the amount of cash received in exchange for those shares. The tax consequences of cash received may vary depending upon the PBSC Financial shareholder's individual circumstances. Each PBSC Financial shareholder who contemplates exercising statutory dissenters' rights should consult its tax advisor as to the possibility that all or a portion of the payment received pursuant to the exercise of such rights will be treated as dividend income.

Backup Withholding and Information Reporting. Payments of cash to a PBSC Financial shareholder pursuant to the merger may, under certain circumstances, be subject to information reporting and backup withholding unless the PBSC Financial shareholder provides proof of an applicable exemption or, in the case of backup withholding, furnishes its correct taxpayer identification number and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a PBSC Financial shareholder under the backup withholding rules are not additional tax and generally will be allowed as a refund or credit against such PBSC Financial shareholder's U.S. federal income tax liability.

A PBSC Financial shareholder who receives Carolina Alliance common stock as a result of the merger will be required to retain records pertaining to the merger. Each PBSC Financial shareholder who is required to file a U.S. federal income tax return and who is a "significant holder" that receives Carolina Alliance common stock in the merger will be required to file a statement with such U.S. federal income tax return in accordance with Treasury Regulations Section 1.368-3 setting forth information regarding the parties to the merger, the date of the merger, such PBSC Financial shareholder's basis in the PBSC Financial common stock surrendered and the fair market value of the Carolina Alliance common stock and cash received in the merger. A "significant holder" is a PBSC Financial shareholder who, immediately before the merger, owned at least 1% of the outstanding stock of PBSC Financial or securities of PBSC Financial with a basis for federal income tax purposes of at least $1 million.

The discussion of U.S. federal income tax consequences set forth above is for general information only and does not purport to be a complete analysis or listing of all potential tax effects that may apply to a PBSC Financial shareholder. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the merger. Tax matters are very complicated, and the tax consequences of the merger to you will depend upon the facts of your particular situation. Accordingly, Carolina Alliance and PBSC Financial strongly urge you to consult with a tax advisor to determine the particular federal, state, local or foreign income or other tax consequences to you of the merger.

Management and Operations After the Merger

At the effective time of the merger, PBSC Financial and Pinnacle Bank will merge with and into Carolina Alliance. After the merger, the following 15 directors of Carolina Alliance will continue to serve as directors of the bank: Terry L. Cash (Chairman), W. Louis Bissette, Jr. (Vice Chairman), Carl R. Bartlett, T. Alexander Evins, Marsha H. Gibbs, George M. Groome, John D. Kimberly, Samuel H. Maw, Jr., Susan H. McClinton, D. Byrd Miller

III, John S. Poole, W. Allen Rogers, II, R. Lamar Simpson, L. Terrell Sovey and W. Lewis White, Sr., and Carolina Alliance will appoint the following three current directors of PBSC Financial to the board: Richard H. Sumerel, Larry A. Webb, and Marshall E. Franklin. Carolina Alliance's board of directors will then have a total of 18 members immediately after the merger. Information regarding each of the PBSC Financial designees is included under "Proposal No. 2 – PBSC Financial Directors Proposal" beginning on page 102 of this joint proxy statement/offering circular. Carolina Alliance has agreed to cause each of the three PBSC Financial directors to be nominated for election by the shareholders to the board of directors of Carolina Alliance at the 2016 annual meeting of shareholders of Carolina Alliance. In addition, Carolina Alliance has agreed to cause to be nominated for election to the board of directors of Carolina Alliance at subsequent annual meetings that number of former PBSC Financial directors, which if elected by the Carolina Alliance shareholders, will result in three former PBSC Financial directors serving as directors of Carolina Alliance through the 2020 annual meeting of shareholders. As a condition to the merger, Carolina Alliance will enter into a commitment agreement with each of the three current PBSC Financial directors appointed to the board of directors of Carolina Alliance to memorialize such individuals' future nomination to the board of directors of Carolina Alliance. Carolina Alliance also intends to reduce the size of the board of directors from 18 directors to 15 directors at or prior to the 2017 annual meeting of shareholders, although such reduction will not affect the number of former PBSC Financial directors then serving on the board of directors of Carolina Alliance.

John Poole will continue to serve as the Chief Executive Officer of Carolina Alliance, John Kimberly will continue to serve as President of Carolina Alliance and Lamar Simpson will continue to serve as Chief Financial Officer and Chief Operating Officer of Carolina Alliance. David Barnett, President and Chief Executive Officer of Pinnacle, will join Carolina Alliance as Executive Vice President and President of the Greenville and South Carolina Western Region. David Weaver, Chief Credit Officer of Pinnacle, will join Carolina Alliance as Executive Vice President and Senior Credit Officer in South Carolina. Jim Stewart, Senior Market Executive of Pinnacle, will join Carolina Alliance as Executive Vice President and Commercial Banking Officer. Carolina Alliance has entered into employment agreements with Messrs. Barnett, Weaver and Stewart as further described immediately below.

Interests of Employees and Directors of PBSC Financial in the Merger

General. Some of the employees and directors of PBSC Financial may be deemed to have interests in the merger in addition to their interests as shareholders of PBSC Financial generally. These interests include, among others, proposed employee benefits for those who become employees of Carolina Alliance after the merger, entry into individual employment agreements for certain executive officers, entry into retention bonus agreements for the payment of retention bonuses for certain executive officers, lump sum payments under supplemental executive retirement plan agreements for certain executive officers, the appointment of three Pinnacle directors to the board of directors of Carolina Alliance and insurance coverage and indemnification for Pinnacle's directors and officers, as described below.

Employee Benefits. The merger agreement generally provides that Carolina Alliance will furnish to those employees of PBSC Financial who become employees of Carolina Alliance after the effective time of the merger, benefits on the same basis as it provides coverage to other Carolina Alliance employees, except that any pre-existing condition, eligibility waiting period, or other limitations or exclusions otherwise applicable under such plans to new employees will not apply to a continuing employee or his or her covered dependents who were covered under a similar Pinnacle plan at the effective time of the merger. For purposes of participation, vesting, and benefit accrual under Carolina Alliance's employee benefit plans, service with Pinnacle prior to the effective time of the merger will be treated as service with Carolina Alliance. Carolina Alliance will credit new Carolina Alliance employees for amounts paid under Pinnacle benefit plans for the plan year, including the effective time of the merger, for purposes of applying deductibles, co-payments, and out of pocket maximums under the Carolina Alliance benefit plans.

Employment Agreements with David Barnett, David Weaver and Jim Stewart; Assumption of Employment Agreement with Tommy Warren. Each of David Barnett, David Weaver, Jim Stewart and Tommy Warren is currently bound by an employment agreement with PBSC Financial that provides, among other things, that the executive may terminate his employment for good reason within 12 months following a change in control of PBSC Financial. If the agreement is terminated by the executive for good reason upon a change of control, PBSC Financial must promptly pay the executive a lump sum cash payment equal to one times the sum of (i) the executive's then current base salary for that calendar year, and (ii) the average of any annual bonus payments paid to the executive during the three years immediately preceding the effective date of termination.

As a condition to closing the merger, Carolina Alliance and each of Messrs. Barnett, Weaver and Stewart have entered into a new employment agreement which at the effective time of the consummation of the merger will supersede and replace in its entirety the current employment agreement with PBSC Financial. Pursuant to the new employment agreements, Mr. Barnett will serve as Executive Vice President and President of the Greenville and South Carolina Western Region of Carolina Alliance, Mr. Weaver will serve as Executive Vice President and Senior Credit Officer in South Carolina of Carolina Alliance and Mr. Stewart will serve as Executive Vice President and Commercial Banking Officer of Carolina Alliance. Each of the new agreements will be for a term of two years, and will automatically renew each year for successive one year periods unless either party provides written notice to terminate such renewals. Under the employment agreements, Mr. Barnett will receive an annual base salary equal to the greater of $200,000.00 or his annual rate of base salary being paid by Pinnacle at the effective time of the merger not to exceed $208,000; Mr. Weaver will receive an annual base salary equal to the greater of $171,000 or his annual rate of base salary being paid by Pinnacle at the effective time of the merger not to exceed $177,840; and Mr. Stewart will receive an annual base salary equal to the greater of $159,000 or his annual rate of base salary being paid by Pinnacle at the effective time of the merger not to exceed $165,360. The combined bank's board of directors will review the executive's base salary annually and may increase such salary from time to time. Each of the executives will also be eligible to participate in all of the combined bank's retirement, welfare, deferred compensation, insurance, and other benefit plans and programs.

If the executive's employment is terminated by the combined bank without cause (as defined in the agreement), the executive will be entitled to 12 times the sum of his then current monthly base salary plus any bonus earned through the date of termination. If the agreement is terminated following a change in control of the combined bank or if the executive terminates the agreement for good reason (as defined in the agreement) during the one year period following a change in control, the executive will be entitled to all accrued compensation and accrued benefits plus a lump sum cash payment equal to 18 times for Mr. Barnett and 12 times for Messrs. Weaver and Stewart the sum of the executive's then current monthly base salary plus any bonus earned through the date of termination.

In addition, the restrictions on any outstanding incentive awards (including restricted stock) granted to the executive under the long-term equity incentive program or any other incentive plan or arrangement shall lapse and such awards shall become 100% vested, all stock options and stock appreciation rights granted to the executive shall become immediately exercisable and shall become 100% vested, and all performance units granted to the executive shall become 100% vested.

During the executive's employment and for a period of 12 months thereafter, the executive will be prohibited from competing with Carolina Alliance and soliciting customers and/or personnel for a competing business.

Unlike Messrs. Barnett, Weaver and Stewart, Mr. Warren will not be offered new employment agreement. Carolina Alliance will instead assume Mr. Warren's existing employment agreement with PBSC Financial as of the closing of the merger. Under the terms of Mr. Warren's existing agreement, assuming he is terminated or resigns with good reason, he will be entitled to a lump sum severance payment equal to one times the sum of (i) his then current base salary for that calendar year, and (ii) the average of any annual bonus payments paid to him from 2012 through 2014. It is anticipated that Mr. Warren will be retained by Carolina Alliance to assist with transition issues through the end of 2015. Also at closing, Mr. Warren will receive cash payouts in accordance with his existing supplemental executive retirement plan agreement with PBSC Financial as explained further below under "SERP Payouts for David Barnett, David Weaver, Jim Stewart and Tommy Warren."

Retention Bonus Agreements with David Barnett, David Weaver and Jim Stewart. In order to assure the continued dedication, efforts and services of Messrs. Barnett, Weaver and Stewart, Carolina Alliance entered into a retention agreement with each of Messrs. Barnett, Weaver and Stewart simultaneously with the execution of the merger agreement. Under the retention agreements, Mr. Barnett will receive a single, lump sum payment equal to the greater of $200,000.00 or his annual rate of base salary being paid by Pinnacle at the effective time of the merger not to exceed $208,000; Mr. Weaver will receive a single, lump sum payment equal to the greater of $171,000 or his annual rate of base salary being paid by Pinnacle at the effective time of the merger not to exceed $177,840; and Mr. Stewart will receive a single, lump sum payment equal to the greater of $159,000 or his annual rate of base salary being paid by Pinnacle at the effective time of the merger not to exceed $165,360. If the executive's employment with Carolina Alliance is terminated, except in the case of termination of employment for death, disability or

without cause, (i) prior to the first anniversary of the closing of the merger, the executive will forfeit the retention bonus paid to him or (ii) on or after the first anniversary of the closing of the merger but prior to the second anniversary of the closing, the executive will forfeit one-half of the retention bonus paid to him. In addition, the executive will forfeit any retention bonus paid him if prior to the second anniversary of the closing of the merger the executive breaches any of the restrictive covenants he has entered into with Carolina Alliance under the terms of the employment agreement (as discussed below). If the merger does not occur for any reason, the executive will have no right to receive the retention payment.

SERP Payouts for David Barnett, David Weaver, Jim Stewart and Tommy Warren. As a condition to the merger, David Barnett, David Weaver, Jim Stewart and Tommy Warren will agree to terminate their existing supplemental executive retirement plan agreements with PBSC Financial. Upon the effective time of the consummation of the merger, they will receive the payouts of $519,393 (Mr. Barnett), $354,572 (Mr. Weaver), $346,045 (Mr. Stewart) and $344,656 (Mr. Warren) from Carolina Alliance in exchange for terminating these retirement agreements.

Shareholder Support Agreements. In connection with the merger, PBSC Financial has entered into a shareholder support agreement with each of its 10 directors. Pursuant to the terms of the support agreements, each director-shareholder revoked any and all previous proxies with respect to his or her shares and irrevocably agreed to vote all such shares for the approval and the adoption of the merger agreement and all transactions contemplated thereby and against any proposal or transaction which could prevent or delay the consummation of the transactions contemplated by the merger agreement. The shareholders also agreed that while the support agreement is in effect they would not directly or indirectly sell, transfer, pledge, assign or otherwise dispose of, or enter into any contract, option, commitment or other arrangement or understanding with respect to the sale, transfer, pledge, assignment or other disposition of, any of their shares, except for certain limited transfers.

The directors who cease to be director of the combined bank within 12 months following the merger have also agreed for a period of 12 months to not disclose any secret or confidential material or information relating to any aspect of the business or operations of PBSC Financial or Carolina Alliance, nor compete with Carolina Alliance in the primary service area. For purposes of the support agreement, "primary service area" means the geographical area in South Carolina within a 25 mile radius of any banking office operated by PBSC Financial immediately prior to the merger.

Preferred Treatment of Option Cash Election Shares. Messrs. Barnett, Weaver and Stewart each acquired 6,668 shares of PBSC Financial common stock through the exercise of stock options after the date of the merger agreement (which we refer to herein as the "Option Cash Election Shares"). Under the terms of the merger agreement, if the cash consideration elected by PBSC Financial shareholders in the aggregate exceeds 20% of the total outstanding non-dissenting shares of PBSC Financial common stock and Carolina Alliance does not exercise its discretion to increase the number of shares of PBSC Financial common stock which Carolina Alliance will exchange for cash to an amount that is greater than 20% of the total outstanding non-dissenting shares of PBSC Financial common stock, then Messrs. Barnett, Weaver and Stewart will receive preferential treatment with respect to receiving the cash consideration for the Option Cash Election Shares. Specifically, if Carolina Alliance does not exercise such discretion, Messrs. Barnett, Weaver and Stewart, as shareholders holding the Option Cash Election Shares, will receive the cash consideration, and each shareholder who chose the cash consideration (other than shareholders who hold Option Cash Election Shares) will receive (i) $12.00 times the product obtained by multiplying the number of shares of PBSC Financial common stock (other than the Option Cash Election Shares) as to which the shareholder chose the cash election by a fraction, the numerator of which is 20% of the total outstanding non-dissenting shares of PBSC Financial common stock and the denominator of which is the aggregate number of shares of PBSC Financial common stock elected by all PBSC Financial shareholders to be converted into cash, and (ii) shares of Carolina Alliance common stock for the remaining amount of shares of PBSC Financial common stock held by the shareholder. PBSC Financial shareholders choosing stock consideration and shareholders who did not make an election will receive the stock consideration.

Indemnification. Pursuant to the merger agreement, after the effective time of the merger, all rights to indemnification currently existing in favor of any officer or director of Pinnacle with respect to matters occurring on or prior to the effective date of the merger will continue in effect and will be enforceable against Carolina Alliance. Carolina Alliance and Pinnacle agreed that from and after the effective time of the merger, Carolina Alliance will, for a period of six years, indemnify, defend and hold harmless each present and former officer and director of

Pinnacle to the fullest extent currently provided under the articles of incorporation and/or bylaws of Pinnacle if such claim pertains to any matter arising, existing or occurring at or before the effective time of the merger, regardless of whether such claim is asserted or claimed before or after the effective time of the merger.

Officers and Directors Liability Insurance. Carolina Alliance and Pinnacle have agreed that for a period of six years after the effective time of the merger Carolina Alliance will provide an officers' and directors' liability insurance policy for present and former officers and directors of Pinnacle, providing substantially similar coverage to that offered under Pinnacle's existing officers' and directors' liability insurance policy.

Interests of Employees and Directors of Carolina Alliance in the Merger

Waiver Agreements. In connection with the merger, Carolina Alliance has entered into waiver agreements with all of its officers and employees entitled to receive any compensation, benefits, payments, or the like, as a result of the merger. Pursuant to the waiver agreements, the officers and employees of Carolina Alliance will agree to waive and voluntarily relinquish any and all claims and entitlements to which they may be entitled as a result of the merger including, without limitation, any right to any compensation, benefits or payments pursuant to employment agreements, and automatic vesting of any outstanding, but unvested, incentive award granted under stock option or stock incentive plans, or any other incentive plan or arrangement. Execution of these waiver agreements is a condition to closing the merger. For a description of Carolina Alliance's employment agreements with Messrs. Poole, Kimberly, and Simpson, see "Senior Executive Officer Employment Agreements" on page 136 herein.

Conditions to Consummation

The obligations of Pinnacle and Carolina Alliance to consummate the merger are subject to the satisfaction or waiver (to the extent permitted) of several conditions, including:

- PBSC Financial, Pinnacle Bank and Carolina Alliance shareholders must have approved the merger agreement;

- The required regulatory approvals described under "Regulatory Matters" must have been received, generally without any conditions or requirements which would, in the reasonable judgment of the board of directors of both Carolina Alliance and Pinnacle, materially and adversely affect the economic or business benefits of the transactions contemplated by the merger agreement such that, had Carolina Alliance and Pinnacle known about such condition or requirement, they would not have entered into the merger agreement;

- Each party must have received all consents (other than those described in the preceding paragraph) required for consummation of the merger and for the prevention of a default under any contract of such party which, if not obtained or made, would reasonably likely have, individually or in the aggregate, a material adverse effect on such party, generally without any conditions or requirements which would, in the reasonable judgment of the board of directors of Carolina Alliance and Pinnacle, materially and adversely affect the economic or business benefits of the transactions contemplated by the merger agreement such that, had Carolina Alliance and Pinnacle known about such condition or requirement, they would not have entered into the merger agreement;

- No court or regulatory authority may have taken any action which prohibits, restricts, or makes illegal the consummation of the transactions contemplated by the merger agreement;

- There are no lawsuits, demand letters, demands for indemnification, claims, notices of violation, arbitrations, investigations, orders to show cause, notices of non-compliance or other proceedings of any nature pending or, to either parties' knowledge, threatened, against either Carolina Alliance, its subsidiaries, or Pinnacle, relating to the consummation of the merger or the performance of the merger agreement;

- Carolina Alliance and Pinnacle must have received an opinion of Nelson Mullins Riley & Scarborough, LLP and Bryan Cave, LLP, respectively, as to the matters set forth above under "Important Federal Income Tax Consequences";

- The other party's representations and warranties must remain accurate, and the other party must have performed all of the agreements and covenants to be performed by it pursuant to the merger agreement, and must have delivered certificates confirming satisfaction of the foregoing requirements and certain other matters;

- The holders of no more than 10% of the aggregate outstanding shares of Carolina Alliance common stock or PBSC Financial common stock, as appropriate, shall have properly notified Carolina Alliance and PBSC Financial, as appropriate, under Sections 33-13-101 et seq. of the South Carolina Business Corporation Act (which we refer to herein as the "SCBCA") that they intend to exercise their dissenters' rights;

- Neither party shall have experienced a material adverse effect since the date of the merger agreement;

- Carolina Alliance and Pinnacle shall have received the executed support agreements, waiver agreements, employment agreements and commitment agreements set forth in the merger agreement; and

- The shareholders' equity of Pinnacle, excluding unrealized gains or losses net of income taxes on available for sale securities included in accumulated other comprehensive income, certain one-time merger-related charges and certain dividends declared to holders of PBSC Financial common stock, on as of the close of business on the last day of the month preceding the effective time of the merger shall be equal to or greater than $19.8 million.

No assurances can be provided as to when or if all of the conditions precedent to the merger can or will be satisfied or waived by the appropriate party. As of the date of this joint proxy statement/offering circular, the parties know of no reason to believe that any of the conditions set forth above will not be satisfied.

The conditions to consummation of the merger may be waived, in whole or in part, to the extent permissible under applicable law, by the party for whose benefit the condition has been imposed, without the approval of such parties' shareholders.

Regulatory Matters

Carolina Alliance is responsible for filing all applications necessary to obtain any required regulatory approvals of the transactions contemplated by the merger agreement as soon as reasonably practicable after the date thereof.

Completion of the merger between Carolina Alliance and Pinnacle is subject to the prior receipt of all consents or approvals of, or the provision of notices to, federal and state authorities required to complete the merger. These approvals include approval from the South Carolina Board of Financial Institutions and the FDIC. The merger cannot proceed in the absence of these required regulatory approvals. The approval of any application merely implies satisfaction of regulatory criteria for approval, and does not include review of the merger from the standpoint of the adequacy of the consideration to be received by, or fairness to, shareholders. Regulatory approval does not constitute an endorsement or recommendation of the proposed merger.

Termination; Amendment

The merger agreement may be terminated prior to the closing, before or after approval by Carolina Alliance and PBSC Financial shareholders, for various reasons, including the following:

- by unanimous consent of the boards of directors of Carolina Alliance, PBSC Financial and Pinnacle Bank;

- by Carolina Alliance or Pinnacle if any required regulatory approvals for consummation of the merger are not obtained;

- by Carolina Alliance or Pinnacle if PBSC Financial shareholders do not approve the merger agreement and merger;

- by Carolina Alliance or Pinnacle if Carolina Alliance shareholders do not approve the merger agreement and merger;

- by a party who is not in material breach of the agreement if the other party (i) materially breaches any covenants or undertakings contained in the merger agreement or (ii) materially breaches any representations or warranties contained in the merger agreement, in each case if such breach is reasonably likely to have a material adverse effect on either party and such breach cannot be or has not been cured within 30 days after notice from the terminating party;

- by Carolina Alliance or Pinnacle if the merger has not occurred on or before December 31, 2015;

- by Carolina Alliance if (i) PBSC Financial shall have materially breached its obligations prohibiting solicitation of alternative proposals, (ii) the board of directors of PBSC Financial shall have failed to make its recommendation in favor of the merger or shall have changed its recommendation to its shareholders regarding approval of the merger, (iii) the board of directors of PBSC Financial shall have recommended, proposed, or publicly announced its intention to recommend or propose, to engage in an acquisition transaction with any party other than Carolina Alliance, or (iv) PBSC Financial shall have materially breached its obligation to call, give notice of, convene and hold its shareholder meeting to approve the merger;

- by Carolina Alliance or Pinnacle if there shall have been a civil, criminal, administrative or regulatory action, suit, demand letter, demand for indemnification, claim, hearing, notice of violation, arbitration, investigation, order to show cause, market conduct examination, notice of non-compliance or other proceeding of any nature pending or, to either parties' knowledge, threatened against the other party or its subsidiaries relating to the consummation of the merger or the performance of the merger agreement;

- by Pinnacle if, at any time during the three business days following the Determination Date, the Final Carolina Alliance Stock Price is greater than $15.00; or

- by either Carolina Alliance or Pinnacle if, at any time during the three business days following the Determination Date, the Final Carolina Alliance Stock Price is less than $8.00.

The merger agreement may also be amended or modified at any time, before or after its approval by the shareholders of Carolina Alliance and PBSC Financial, by agreement of Carolina Alliance, PBSC Financial and Pinnacle Bank, except that no amendment shall be made after the annual meeting without the shareholder approval of Carolina Alliance and PBSC Financial if such amendment, by law, would require further approval by the shareholders of Carolina Alliance or PBSC Financial.

Effect of Termination

The following termination fees and/or liquidated damages shall be paid in the event of termination:

- Pinnacle shall pay to Carolina Alliance a termination fee equal to $1.0 million if (i) PBSC Financial violates the provision prohibiting the solicitation of merger proposal and other alternate transactions from other parties; (ii) PBSC Financial's board fails to recommend approval of the merger to its shareholders (except as permitted for a superior proposal); (iii) PBSC Financial's board shall have recommended, proposed, or publicly announced its intention to recommend or propose, to engage in a transaction with any person or company other than Carolina Alliance; or (iv) PBSC Financial shall have materially breached its obligations to call, give notice of, convene and hold its shareholders meeting to approve the merger.

- If either party terminates the merger agreement by reason of the other party's material breach of its representations, warranties and/or covenants in the merger agreement, the parties agree that the party in breach shall pay $300,000 as liquidated damages to the non-breaching party unless such breach is intentional or related to fraud on the part of the breaching party.

Agreement Not to Solicit Other Offers

For purposes of the merger agreement:

- an "acquisition proposal" means any inquiries or the making of any proposal or offer with respect to, or a transaction to effect, a merger, reorganization, share exchange, consolidation, sale of assets, sale of shares of capital stock (including, by way of a tender offer) or similar transaction involving PBSC Financial or any of its subsidiaries that, if consummated, would constitute an "alternative transaction" (as described below);

- an "alternative transaction" means, with respect to PBSC Financial, (i) any transaction pursuant to which any person (or group of persons) other than Carolina Alliance or its affiliates acquires or would acquire more than 20% of the outstanding shares of PBSC Financial common stock or outstanding voting power of PBSC Financial or more than 20% of the outstanding shares or voting power of any other series or class of capital stock of PBSC Financial that would be entitled to a vote with respect to the merger, whether from PBSC Financial or Carolina Alliance, as applicable or pursuant to a tender offer or exchange offer or otherwise, (ii) a merger, share exchange, consolidation or other business combination involving PBSC Financial (other than the merger), (iii) any transaction pursuant to which any person (or group of persons) other than Carolina Alliance or its affiliates acquires or would acquire control of assets (including for this purpose the outstanding equity securities of any PBSC Financial subsidiaries and securities of the entity surviving any merger or business combination involving any PBSC Financial subsidiary) of PBSC Financial or any of its subsidiaries representing more than 20% of the fair market value of all the assets, deposits, net revenues or net income of PBSC Financial and its subsidiaries, taken as a whole, immediately prior to such transaction or (iv) any other consolidation, business combination, recapitalization or similar transaction involving PBSC Financial or any of its subsidiaries other than the transactions contemplated by the merger agreement, as a result of which the holders of shares of PBSC Financial common stock immediately prior to such transaction do not, in the aggregate, own at least 80% of each of the outstanding shares of PBSC Financial common stock and the outstanding voting power of the surviving or resulting entity in such transaction immediately following the completion of the transaction, in substantially the same proportion as such holders held the shares of PBSC Financial common stock immediately prior to the completion of such transaction; and

- a "superior proposal" for PBSC Financial means an unsolicited acquisition proposal made by a third person (or group of persons acting in concert) to acquire, directly or indirectly, pursuant to a tender offer, exchange offer, merger, consolidation or other business combination or acquisition transaction (i) all or substantially all of the assets of PBSC Financial or (ii) all of the outstanding voting securities of PBSC Financial and which the board of directors of PBSC Financial has in good faith determined to be more favorable, from a financial point of view, to PBSC Financial shareholders than the transactions contemplated by the merger agreement (as may be proposed to be amended by Carolina Alliance) and to be reasonably capable of being completed on the terms proposed.

PBSC Financial has agreed that it will not, and will cause each of its subsidiaries and its and their respective officers, directors, employees, agents and representatives not to, directly or indirectly:

- initiate, solicit, knowingly encourage or facilitate any acquisition proposal;

- participate in any discussions with or provide any confidential information to any person relating to an acquisition proposal or alternative transaction, engage in any negotiations concerning an acquisition proposal or alternative transaction, or knowingly facilitate any effort or attempt to make or implement an acquisition proposal or alternative transaction;

- approve or execute or enter into any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other contract related to any acquisition proposal or alternative transaction; or

- propose or agree to do any of the above.

However, the board of directors of PBSC Financial shall be permitted, prior to its meeting of shareholders and subject to compliance with its non-solicitation obligations as described above and to first entering into a confidentiality agreement having provisions that are no less favorable to such party than those contained in the confidentiality agreement between PBSC Financial and Carolina Alliance, to engage in discussions and negotiations with, or provide any nonpublic information or data to, any person in response to an unsolicited bona fide written acquisition proposal by such person first made after the date of the merger agreement and which the board of directors of PBSC Financial concludes in good faith (after consultation with its outside legal counsel and financial advisors) constitutes or is reasonably likely to result in a superior proposal, if and only to the extent that the directors of PBSC Financial conclude in good faith (after consultation with their outside legal counsel) that failure to do so would be reasonably likely to violate their fiduciary duties under applicable law.

PBSC Financial has agreed to provide Carolina Alliance written notice within 24 hours following the receipt of any acquisition proposal, or a request for nonpublic information or inquiry related to a possible acquisition proposal. The notice will be made orally and in writing, and indicate the identity of the person making the acquisition proposal, inquiry or request and the material terms thereof. PBSC Financial also agrees to provide notice if its board of directors enters into any discussions or negotiations with or provides nonpublic information to a person as required by their fiduciary duties and permitted under the preceding paragraph. PBSC Financial will keep Carolina Alliance fully informed of the status and terms of any such proposals, offers, inquiries, discussions or negotiations on a current basis and provide a copy of all material related documentation or correspondence.

Furthermore, PBSC Financial's board of directors will not withhold, withdraw or modify in any manner adverse to Carolina Alliance (or propose publicly to do so) its recommendation of the transactions contemplated under the merger agreement, unless (i) an unsolicited bona fide written acquisition proposal is made by a third party and not withdrawn, (ii) the board of directors of PBSC Financial concludes in good faith (in consultation with its outside legal counsel and financial advisors) that the acquisition proposal constitutes a superior proposal, (iii) the board of directors of PBSC Financial concludes in good faith (after consultation with its outside legal counsel) that failure to do so would be reasonably likely to violate their fiduciary duties under applicable law, (iv) five days elapse since the required notice is given to Carolina Alliance (three days for any notice regarding the amendment to any material term of the acquisition proposal), (v) PBSC Financial considers any adjustments or modifications to the merger agreement offered by Carolina Alliance and engages in good faith discussions if requested, and (vi) the board of directors of PBSC Financial again reasonably determines in good faith (after consultation with outside legal counsel and financial advisors and taking into account any proposed modifications to the merger agreement) that the acquisition proposal continues to constitute a superior proposal and failure to change the recommendation would violate fiduciary duties under applicable law.

The merger agreement provides that nothing in the non-solicitation provisions of the merger agreement prohibits PBSC Financial from issuing a "stop, look and listen" statement pending disclosure of its position. However, such statement will not eliminate or modify the effect that any action would otherwise have under the merger agreement and any disclosure related to the advisability of the merger agreement or any acquisition proposal or alternative transaction will be treated as a modification of PBSC Financial's recommendation in a manner adverse to Carolina Alliance unless the board of directors of PBSC Financial expressly and concurrently reaffirms its recommendation that shareholders adopt or approve, as applicable, the merger agreement.

Finally, PBSC Financial has agreed to (i) cease immediately and terminate any and all existing activities, discussions or negotiations with any third parties with respect to any acquisition proposal or alternative transaction (and cause its subsidiaries and representatives to cease any such discussions) and (ii) not release any third party from or waive the provisions of any confidentiality or standstill agreement to which PBSC Financial or its subsidiaries is a party with respect to any acquisition proposal or alternative transaction.

Conduct of Business Pending the Merger

The merger agreement contains various restrictions on the operations of Carolina Alliance and Pinnacle before the effective time of the merger. In general, the merger agreement obligates Carolina Alliance and Pinnacle to conduct their businesses in the usual, regular and ordinary course of business consistent with past practice. In addition, Carolina Alliance and Pinnacle have agreed that, except as expressly contemplated by the merger agreement or specified in a schedule to the merger agreement, without the prior written consent of the other, Carolina Alliance and Pinnacle will not, among other things:

- issue, sell, pledge, or otherwise dispose of any shares of their capital stock, any substantial part of their assets or earning power, or any asset other than in the ordinary course of business;

- declare or pay any dividends or make other distributions in respect of their capital stock;

- amend any existing employment, severance or similar contract, or enter into any new such contract;

- grant any increase in compensation or benefits to their officers or other employees or pay any bonus;

- hire any new employee with an annual salary in excess of $50,000 or promote any employee, except to satisfy contractual obligations existing on the date of the merger agreement;

- adopt any new employee benefit plan or make any material change to any existing employee benefit plan, except as contemplated by the merger agreement or as may be required by law or that is made to satisfy contractual obligations;

- enter into transactions with officers, directors or affiliates other than compensation or business expense reimbursement in the ordinary course of business or as otherwise contemplated in the merger agreement;

- except as permitted by the merger agreement, acquire all or any portion of the assets, business, deposits or properties of any other entity, other than in connection with, among other things, good faith foreclosures in the ordinary course of business;

- other than in the ordinary course of their business, make any capital expenditures;

- amend their articles of incorporation or bylaws;

- implement or adopt any change in their accounting principles, practices or methods, other than as may be required by law or generally accepted accounting principles in the U.S. (which we refer to herein as "GAAP");

- enter into, amend, modify or terminate any material contract, lease or insurance policy;

- settle any action, suit, claim or proceeding that involves payment in excess of $50,000 individually for Carolina Alliance and $25,000 individually for PBSC Financial, or $100,000 in the aggregate for Carolina Alliance and $50,000 in the aggregate for PBSC Financial, or that would impose any material restriction on the business of Carolina Alliance or any of its subsidiaries or PBSC Financial or any of its subsidiaries;

- enter into any derivative transaction;

- incur any additional debt obligation or other obligation for borrowed money, except in the ordinary course of their business consistent with past practices;

- repurchase or acquire any shares of their capital stock;

- acquire, sell or otherwise dispose of any investment securities, other than by way of foreclosures or acquisitions in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith;

- make any changes to deposit pricing; or

- make any investment or commitment to invest in real estate or in any real estate development project other than by way of foreclosure or deed in lieu thereof.

In addition to these covenants, the merger agreement contains various other customary covenants, including, among other things, access to information and each party's agreement to use its commercially reasonable efforts to obtain all required consents.

Expenses and Fees

The merger agreement provides that each party will be responsible for its own direct costs and expenses incurred in connection with the negotiation and consummation of the transactions contemplated by the merger agreement, including filing, registrations and application fees, printing fees, and fees and expenses of its own financial or other consultants, investment bankers, accountants, and counsel.

Accounting Treatment

Carolina Alliance will account for the merger using the acquisition method of accounting for financial reporting purposes. Under purchase accounting, the assets and liabilities of Pinnacle as of the effective time of the acquisition are recorded at their respective fair values and added to those of Carolina Alliance. Financial statements issued after consummation of an acquisition accounted for as a purchase would reflect such values and would not be restated retroactively to reflect the historical financial position or results of operations of Carolina Alliance.

Resales of Carolina Alliance Common Stock

The shares of Carolina Alliance to be issued to the shareholders of PBSC Financial in connection with the merger will be exempt from registration under the Securities Act of 1933 and, therefore, may be sold or otherwise transferred without restriction.

Rights of Dissenting Carolina Alliance and PBSC Financial Shareholders Under South Carolina Law

Chapter 13 of the SCBCA sets forth the rights of Carolina Alliance and PBSC Financial shareholders who object to the merger. The following summarizes the material terms of the statutory procedures to be followed by Carolina Alliance and PBSC Financial shareholders in order to dissent from the merger and perfect dissenters' rights under the SCBCA. The following summary does not create any rights, and the rights of dissenting shareholders are only those provided by Chapter 13 of the SCBCA, a copy of which is attached as Appendix B to this joint proxy statement/offering circular.

If a Carolina Alliance or PBSC Financial shareholder elects to exercise his or her right to dissent and demand appraisal, they must satisfy each of the following conditions:

- The shareholder must give Carolina Alliance or PBSC Financial, as applicable, and Carolina Alliance and PBSC Financial, as applicable, must actually receive, before the vote at the special shareholders' meeting on approval or disapproval of the merger is taken, written notice of the intent to demand payment for their shares if the merger is effectuated (this notice must be in addition to and separate from any proxy or vote against the merger; neither voting against, abstaining from voting, nor failing to vote on the merger will constitute a notice within the meaning of the SCBCA); and

- The shareholder must not vote in favor of the merger. A failure to vote or a vote against the merger will satisfy this requirement. If the shareholder notifies Carolina Alliance or PBSC Financial, as applicable, that he or she intends to dissent, a vote cast in favor of the merger by the holder of a proxy solicited by Carolina Alliance or PBSC Financial, as applicable, will not disqualify the shareholder from demanding payment for his or her shares.

If the requirements above are not satisfied and the merger becomes effective, the shareholder will not be entitled to payment for his or her shares under the provisions of Chapter 13 of the SCBCA.

Any notices by a dissenting Carolina Alliance shareholder should be addressed to Carolina Alliance Bank, Attention: Lamar Simpson, Chief Financial Officer, 200 South Church Street, Spartanburg, SC 29306. Any notices by a dissenting PBSC Financial shareholder should be addressed to PBSC Financial Corporation, Attention: Tommy Warren, Chief Financial Officer, 937 North Pleasantburg Drive, Greenville, SC 29607. The notice must be executed

by the holder of record of the shares of common stock as to which dissenters' rights are to be exercised. A beneficial owner may assert dissenters' rights only if he or she dissents with respect to all shares of Carolina Alliance common stock or PBSC Financial common stock, as applicable, of which he or she is the beneficial owner. With respect to shares of Carolina Alliance common stock or PBSC Financial common stock, as applicable, which are owned of record by a voting trust or by a nominee, the beneficial owner of such shares may exercise dissenters' rights if such beneficial holder also submits to Carolina Alliance or PBSC Financial, as applicable, the name and address of the record shareholder of the shares, if known to him or her. A record owner, such as a broker, who holds shares of Carolina Alliance common stock or PBSC Financial common stock, as applicable, as a nominee for others may exercise dissenters' rights with respect to the shares held for all or less than all beneficial owners of shares as to which such person is the record owner, provided such record owner dissents with respect to all Carolina Alliance common stock or PBSC Financial common stock, as applicable, beneficially owned by any one person. In such case, the notice submitted by the broker as record owner must set forth the name and address of the shareholder who is objecting to the merger and demanding payment for such person's shares.

If a Carolina Alliance shareholder or PBSC Financial shareholder, as applicable, properly dissents and the merger is approved, Carolina Alliance or PBSC Financial, as applicable, must mail by registered or certified mail, return receipt requested, a written dissenters' notice to the Carolina Alliance shareholder or PBSC Financial shareholder, as applicable. This notice must be sent no later than 10 days after the shareholder approval of the merger. The dissenters' notice will state where the payment demand of the Carolina Alliance shareholder or PBSC Financial shareholder, as applicable, must be sent, and where and when certificates for shares of Carolina Alliance common stock or PBSC Financial common stock, as applicable, must be deposited; supply a form for demanding payment; set a date by which Carolina Alliance or PBSC Financial, as applicable, must receive the payment demand (not fewer than 30 days nor more than 60 days after the dissenters' notice is mailed and which must not be earlier than 20 days after the demand date); and include a copy of Chapter 13 of the SCBCA.

If a Carolina Alliance shareholder or PBSC Financial shareholder, as applicable, receives a dissenters' notice, the shareholder must demand payment and deposit the share certificates in accordance with the terms of the dissenters' notice. If the shareholder demands payment and deposits his or her share certificates, the shareholder will retain all other rights of a shareholder until these rights are canceled or modified by the merger. If the shareholder does not demand payment or does not deposit his or her share certificates where required, each by the date set in the dissenters' notice, the shareholder is not entitled to payment for his or her shares under Chapter 13 of the SCBCA.

Within 30 days after receipt of demand for payment, Carolina Alliance or PBSC Financial, as applicable, is required to pay the shareholder the amount that Carolina Alliance or PBSC Financial, as applicable, estimates to be the fair value of the shares, plus interest accrued from the effective date of the merger to the date of payment. The payment must be accompanied by:

- Carolina Alliance's or PBSC Financial's, as applicable, most recent available balance sheet, income statement, and statement of cash flows as of the end of or for the fiscal year ending not more than 16 months before the date of payment, and the latest available interim financial statements, if any;

- An explanation of how Carolina Alliance or PBSC Financial, as applicable, estimated the fair value of the shares;

- An explanation of the interest calculation;

- A statement of the dissenters' right to demand payment (as described below); and

- A copy of Chapter 13 of the SCBCA.

If the merger is not consummated within 60 days after the date set for demanding payment and depositing share certificates, Carolina Alliance or PBSC Financial, as applicable, must return the deposited certificates to the dissenting Carolina Alliance shareholder or PBSC Financial shareholder, as applicable. If after returning the deposited certificates the merger is consummated, Carolina Alliance or PBSC Financial, as applicable, must send the dissenting shareholder a new dissenters' notice and repeat the payment demand procedure.

Demand for Payment

Dissenting Carolina Alliance shareholders or PBSC Financial shareholders, as applicable, may notify Carolina Alliance or PBSC Financial, as applicable, in writing of their own estimate of the fair value of Carolina Alliance or PBSC Financial, as applicable, shares and amount of interest due, and demand payment of the excess of his or her estimate of the fair value of his or her shares over the amount previously paid by Carolina Alliance or PBSC Financial, as applicable, if:

- The shareholder believes that the amount paid is less than the fair value of Carolina Alliance common stock or PBSC Financial common stock, as applicable, or that the interest is incorrectly calculated;

- Carolina Alliance or PBSC Financial, as applicable, fails to make payment of Carolina Alliance's or PBSC Financial's, as applicable, estimate of fair value to the shareholder within 30 days after receipt of a demand for payment; or

- The merger not having been consummated, Carolina Alliance or PBSC Financial, as applicable, does not return the shareholder deposited certificates within 60 days after the date set for demanding payment.

Shareholders waive the right to demand payment unless they notify Carolina Alliance or PBSC Financial, as applicable, of their demand in writing within 30 days of the payment of Carolina Alliance's or PBSC Financial's, as applicable, estimate of fair value or Carolina Alliance's or PBSC Financial's, as applicable, failure to perform. If the dissenting shareholder fails to notify Carolina Alliance or PBSC Financial, as applicable, of its demand within such 30-day period, the shareholder shall be deemed to have withdrawn his or her shareholder's dissent and demand for payment.

Appraisal Proceeding

If a demand for payment by a dissenting Carolina Alliance shareholder remains unsettled, Carolina Alliance must commence a proceeding within 60 days after receiving the demand for additional payment by filing a complaint with the South Carolina Court of Common Pleas, Spartanburg County, to determine the fair value of the shares and accrued interest. If a demand for payment by a dissenting PBSC Financial shareholder remains unsettled, PBSC Financial must commence a proceeding within 60 days after receiving the demand for additional payment by filing a complaint with the South Carolina Court of Common Pleas, Greenville County, to determine the fair value of the shares and accrued interest. If Carolina Alliance or PBSC Financial, as applicable, does not commence the proceeding within such 60 day period, it shall pay the shareholder the amount he or she demanded.

The court in such an appraisal proceeding will determine all costs of the proceeding and assess the costs as it finds equitable. The proceeding is to be tried as in other civil actions; however, a dissenting shareholder will not have the right to a trial by jury. The court may also assess the fees and expenses of counsel and expenses for the respective parties, in the amounts the court finds equitable: (a) against Carolina Alliance or PBSC Financial, as applicable, if the court finds that it did not comply with the statute; or (b) against Carolina Alliance or PBSC Financial, as applicable, or the shareholder, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith. If the court finds that the services of counsel for the shareholder were of substantial benefit to other dissenting shareholders, and that the fees for those services should not be assessed against Carolina Alliance or PBSC Financial, as applicable, the court may award to these counsel reasonable fees to be paid out of the amounts awarded the dissenting shareholders who were benefited. If Carolina Alliance or PBSC Financial, as applicable, fails to commence an appraisal proceeding within 60 days, the court shall assess against Carolina Alliance or PBSC Financial, as applicable, the costs of the proceedings and the fees and expenses of shareholder counsel.

THE SUMMARY SET FORTH ABOVE DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE PROVISIONS OF CHAPTER 13 OF THE SCBCA RELATING TO THE RIGHTS OF SHAREHOLDERS DEMANDING DISSENTERS' RIGHTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE APPLICABLE SECTIONS OF THE SCBCA, WHICH ARE INCLUDED AS APPENDIX B TO THIS JOINT PROXY STATEMENT/OFFERING CIRCULAR. SHAREHOLDERS INTENDING TO EXERCISE DISSENTERS' RIGHTS ARE URGED TO REVIEW APPENDIX B CAREFULLY AND TO CONSULT WITH LEGAL COUNSEL SO AS TO BE IN STRICT COMPLIANCE THEREWITH.

DESCRIPTION OF CAROLINA ALLIANCE'S CAPITAL STOCK

General

The authorized capital stock of Carolina Alliance consists of 10,000,000 shares of common stock, par value $1.00 per share, and 10,000,000 shares of preferred stock, par value $1.00 per share. This summary of the material rights and features of Carolina Alliance's capital stock does not purport to be exhaustive and is qualified in its entirety by reference to Carolina Alliance's articles of incorporation and bylaws, and to applicable South Carolina law.

Common Stock

Holders of shares of Carolina Alliance's common stock are entitled to receive such dividends as may from time to time be declared by the board of directors out of funds legally available for distribution. Holders of Carolina Alliance's common stock are entitled to one vote per share on all matters on which the holders of common stock are entitled to vote and do not have any cumulative voting rights. Shareholders have no preemptive, conversion, redemption, or sinking fund rights. In the event of a liquidation, dissolution, or winding-up of Carolina Alliance, holders of common stock are entitled to share equally and ratably in Carolina Alliance's assets, if any, remaining after the payment of all debts and liabilities and the liquidation preference of any outstanding preferred stock. The outstanding shares of common stock are, and the shares of common stock offered hereby, when issued and delivered against payment therefor, will be, fully paid and nonassessable. The rights, preferences, and privileges of holders of common stock are subject to any classes or series of preferred stock that Carolina Alliance may issue in the future.

Preferred Stock

The board of directors of Carolina Alliance is authorized, without further action by the holders of Carolina Alliance's common stock, to provide for the issuance of shares of preferred stock in one or more classes or series and to fix the designations, powers, preferences, and relative rights and qualifications thereof, including the dividend rate, conversion rights, voting rights, redemption price, and liquidation preference, and to fix the number of shares to be included in any such classes or series. Any preferred stock so issued may rank senior to the common stock with respect to the payment of dividends or amounts upon liquidation, dissolution, or winding-up, or both. In addition, any such shares of preferred stock may have class or series voting rights. Issuances of preferred stock, while providing flexibility in connection with general corporate purposes, may, among other things, have an adverse effect on the rights of holders of Carolina Alliance's common stock. For example, the issuance of any preferred stock with voting or conversion rights may adversely affect the voting power of the holders of common stock, and could have the effect of decreasing the market price of the common stock.

Carolina Alliance currently has outstanding 5,000 shares of Non-Cumulative Perpetual Preferred Stock, Series A. See the discussion under "Comparative Rights of PBSC Financial and Carolina Alliance Shareholders – Series A Preferred Stock," for a summary of the terms of the Series A Preferred Stock.

Anti-takeover Effects

The provisions of the Carolina Alliance articles of incorporation and bylaws and South Carolina law summarized in the following paragraphs may have anti-takeover effects and may delay, defer, or prevent a tender offer or takeover attempt that a shareholder might consider to be in such shareholder's best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders, and may make removal of management more difficult.

Authorized but Unissued Stock. The authorized but unissued shares of common stock and preferred stock will be available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued and unreserved shares of common stock and preferred stock may enable the board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage any attempt to obtain control of the bank by means of a proxy contest, tender offer, merger or otherwise, and thereby protect the continuity of the bank's management.

Classified Board of Directors. At any time the Carolina Alliance board has six or more members, its articles and bylaws will divide the board of directors into three classes of directors serving staggered three-year terms. Carolina Alliance currently has 15 directors, and immediately after the merger Carolina Alliance will have a total of 18 directors, including three current members of the PBSC Financial board of directors. Therefore, Carolina Alliance has a staggered board. As a result, approximately one-third of the board of directors will be elected at each annual meeting of shareholders. The classification of directors, together with the provisions in the articles and bylaws described below that limit the ability of shareholders to remove directors and that permit the remaining directors to fill any vacancies on the board of directors, have the effect of making it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders may be required for the shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe that such a change would be desirable.

Number, Term, and Removal of Directors. The bylaws will provide that the number of directors shall be fixed from time to time by resolution of at least a majority of the directors then in office, but may not consist of fewer than five nor more than 25 members. Carolina Alliance currently has 15 directors, and immediately after the merger Carolina Alliance will have a total of 18 directors, including three current members of the PBSC Financial board of directors. Carolina Alliance's directors are elected to three-year terms by a plurality vote of its shareholders. Carolina Alliance's bylaws provide that its shareholders may remove a director with or without cause by a majority vote of those entitled to vote in an election of directors. Its bylaws provide that all vacancies on the board may be filled by a majority of the remaining directors for the unexpired term.

Advance Notice Requirements for Shareholder Proposals and Director Nominations. The bylaws establish advance notice procedures with regard to shareholder proposals and the nomination, other than by or at the direction of the board of directors or a committee thereof, of candidates for election as directors. These procedures provide that the notice of shareholder proposals must be in writing and delivered to the secretary of the bank no less than 30 days and no more than 60 days in advance of the annual meeting. Shareholder nominations for the election of directors must be made in writing and delivered to the secretary of the bank no later than 90 days prior to the annual meeting, and in the case of election to be held at a annual meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of the meeting is first given to shareholders. Carolina Alliance may reject a shareholder proposal or nomination that is not made in accordance with such procedures.

Nomination Requirements. Pursuant to the bylaws, Carolina Alliance established nomination requirements for an individual to be elected as a director, including that the nominating party provide (i) notice that such party intends to nominate the proposed director; (ii) the name of and biographical information on the nominee; and (iii) a statement that the nominee has consented to the nomination. The chairman of any shareholders' meeting may, for good cause shown, waive the operation of these provisions. These provisions could reduce the likelihood that a third party would nominate and elect individuals to serve on the board of directors.

Transfer Agent and Registrar

Computershare Limited serves as the transfer agent for Carolina Alliance. Its address is 480 Washington Blvd., Jersey City, New Jersey 07310 and its telephone number is (201) 680-5344.

COMPARATIVE RIGHTS OF PBSC FINANCIAL AND CAROLINA ALLIANCE SHAREHOLDERS

General

The following is a comparison of certain rights of PBSC Financial shareholders and those of Carolina Alliance shareholders. Certain significant differences in the rights of PBSC Financial shareholders and those of Carolina Alliance shareholders arise from differing provisions of PBSC Financial's and Carolina Alliance's respective governing corporate instruments.

The following summary does not purport to be a complete statement of the provisions affecting, and differences between, the rights of PBSC Financial shareholders and those of Carolina Alliance shareholders. The identification of specific provisions or differences is not meant to indicate that other equally or more significant differences do not exist. This summary is qualified in its entirety by reference to the SCBCA and to the respective governing corporate instruments of PBSC Financial and Carolina Alliance, to which PBSC Financial and Carolina Alliance shareholders are referred.

Authorized Capital Stock

PBSC Financial

Under its articles of incorporation, PBSC Financial is authorized to issue 20,000,000 shares of common stock, par value $1.00 per share, which shares are divided into 10,000,000 shares of voting common stock (which we refer to herein as the "common stock") and 10,000,000 shares of nonvoting common stock. As of April 30, 2015, 1,871,872 shares of PBSC Financial's common stock were issued and outstanding and no shares of PBSC Financial's nonvoting common stock were issued and outstanding. PBSC Financial's articles of incorporation do not provide shareholders with any preemptive rights to acquire authorized and unissued shares of PBSC Financial.

Carolina Alliance

As of April 30, 2015, Carolina Alliance is authorized to issue 10,000,000 shares of common stock, par value $1.00 per share, of which 4,560,660 shares were issued and outstanding as of the date of this joint proxy statement/offering circular, and 10,000,000 shares of preferred stock, par value $1.00 per share, of which 5,000 shares were issued and outstanding as of the date of this joint proxy statement/offering circular. Carolina Alliance's articles of incorporation provide that the board of directors is authorized, without further action by the holders of Carolina Alliance's common stock, to provide for the issuance of shares of preferred stock in one or more classes or series and to fix the designations, powers, preferences, and relative rights and qualifications thereof, and to fix the number of shares to be included in any such classes or series. Carolina Alliance's articles of incorporation provide that shareholders do not have a preemptive right to acquire authorized and unissued shares of Carolina Alliance.

Series A Preferred Stock

The Series A Preferred Stock constitutes a single series of Carolina Alliance's preferred stock, consisting of 5,000 shares, par value $1.00 per share, having a liquidation preference amount of $1,000 per share, all of which are issued and outstanding as of the date of this joint proxy statement/offering circular. The Series A Preferred Stock has no maturity date. Carolina Alliance issued the shares of Series A Preferred Stock to the United States Treasury on August 23, 2011 in connection with the Small Business Lending Fund ("SBLF") program for a purchase price of $5,000,000.

Dividends

General. Dividends on the Series A Preferred Stock are payable quarterly in arrears, when, as and if authorized and declared by Carolina Alliance's board of directors out of legally available funds, on a non-cumulative basis, on the $1,000 per share liquidation preference amount. Dividends are payable on January 1, April 1, July 1 and October 1 of each year.

Each dividend will be payable to holders of record as they appear on Carolina Alliance's stock register on the applicable record date, which will be the 15th calendar day immediately preceding the related dividend payment date (whether or not a business day), or such other record date determined by Carolina Alliance's board of directors that is not more than 60 nor less than ten days prior to the related dividend payment date. Each period from and including a dividend payment date (or from and including the date of the issuance of the Series A Preferred Stock, in the case of the initial dividend period) to but excluding the following dividend payment date is referred to as a "dividend period." Dividends payable for each dividend period are computed on the basis of a 360-day year consisting of four 90-day quarters, and actual days elapsed over a 90-day quarter. If a scheduled dividend payment date falls on a day that is not a business day, the dividend payment will be postponed to the next day that is a business day and no additional dividends will accrue as a result of that postponement. The term "business day" means any day except Saturday, Sunday and any day on which banking institutions in the State of New York or the District of Columbia generally are authorized or required by law or other governmental actions to close.

Rate. The per annum dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first ten quarters during which the Series A Preferred Stock is outstanding, based upon changes in the amount of "Qualified Small Business Lending" or "QSBL" (as defined below) by Carolina Alliance from the "Baseline" (as defined below). The dividend rate for the initial dividend period was one percent (1%). For the second (2nd) dividend period through the tenth (10th) dividend period, the dividend rate was one percent (1%). For the eleventh (11th) dividend period after the issuance date to four and one-half years after the issuance date, the dividend rate will be fixed at between one percent (1%) and seven percent (7%), based upon the increase in QSBL from the Baseline to the level as of the end of the ninth (9th) dividend period (i.e., as of December 31, 2013), or will be fixed at 7% if there is no increase or there is a decrease in QSBL from the Baseline to the level as of the end of the ninth dividend period multiplied by the Qualifying Portion Percentage plus the sum of five percent 5% multiplied by the Non-Qualifying Portion Percentage calculated as of the last day of the ninth (9th) dividend period. From and after four and one-half years from the issuance date, the dividend rate will be fixed at 9%, regardless of the amount of QSBL.

Any reduction in the dividend rate to below 5% prior to the four and one-half year anniversary of the issuance date will not apply to the portion of the aggregate liquidation amount of the then-outstanding shares of Series A Preferred Stock that is greater than the amount of the increase in QSBL from the Baseline. Dividends on any portion of the aggregate liquidation amount of the then-outstanding shares of Series A Preferred Stock that is in excess of the amount of the increase in the amount of QSBL from the Baseline will be payable at five percent per annum until the four and one-half year anniversary of the issuance date, resulting in a blended dividend rate that will apply to each outstanding share of Series A Preferred Stock. As noted above, from and after the four and one-half year anniversary of the issuance date, the dividend rate applicable to each outstanding share of Series A Preferred Stock will be 9%, regardless of the amount of QSBL.

"Qualified Small Business Lending," or "QSBL," is defined as the sum of all lending by Carolina Alliance of the following types:

(i) commercial and industrial loans;

(ii) owner-occupied, nonfarm, nonresidential real estate loans;

(iii) loans to finance agricultural production and other loans to farmers; and

(iv) loans secured by farmland;

and, within these loan categories, excluding: (A) any loan or group of loans to the same borrower and its affiliates with an original principal or commitment amount greater than $10 million or that is made to a borrower that had (or whose ultimate parent company had) more than $50 million in revenues during the most recent fiscal year ended as of the date of origination; (B) to the extent not included in (A) or (C), the portion of any loans guaranteed by the U.S. Small Business Administration, any other U.S. Government agency or a U.S. Government-sponsored enterprise; and (C) to the extent not included in (A) or (B), the portion of any loans held by Carolina Alliance for which the risk is assumed by a third party (e.g., the portion of loans that have been participated), while, further, adding to the amount determined above the cumulative amount of net charge-offs with respect to QSBL as measured since the quarter ended September 30, 2010.

The "Baseline" is the Initial Small Business Lending Baseline from the Initial Supplemental Report. Carolina Alliance's baseline was established at $65,737 and is subject to adjustment pursuant to the dividend rate determination discussed above.

Non-Cumulative Dividends. Dividends on the Series A Preferred Stock are non-cumulative. If for any reason Carolina Alliance's board of directors does not declare a dividend on the Series A Preferred Stock for a particular dividend period, then the holders of the Series A Preferred Stock will have no right to receive any dividend for that dividend period, and Carolina Alliance will have no obligation to pay a dividend for that dividend period. Carolina Alliance must, however, within five (5) calendar days, deliver to the holders of the Series A Preferred Stock a written notice executed by Carolina Alliance's chief executive officer and chief financial officer stating Carolina Alliance's board of directors' rationale for not declaring dividends. Carolina Alliance's failure to pay a dividend on the Series A Preferred Stock also will restrict Carolina Alliance's ability to pay dividends on and repurchase other classes and series of Carolina Alliance's stock. See "– Restrictions on Dividends and Repurchases."

When dividends have not been declared and paid in full on the Series A Preferred Stock for an aggregate of four (4) or more dividend periods, and during that time Carolina Alliance was not subject to a regulatory determination that prohibits the declaration and payment of dividends, Carolina Alliance must, within five (5) calendar days of each missed payment, deliver to the holders of the Series A Preferred Stock a certificate executed by at least a majority of the members of Carolina Alliance's board of directors stating that the board used its best efforts to declare and pay such dividends in a manner consistent with safe and sound banking practices and the directors' fiduciary obligations. In addition, Carolina Alliance's failure to pay dividends on the Series A Preferred Stock for five (5) or more dividend periods, whether or not consecutive, will give the holders of the Series A Preferred Stock the right to appoint a non-voting observer on Carolina Alliance's board of directors, which right will continue until Carolina Alliance have timely paid dividends on the Series A Preferred Stock for at least four consecutive dividend payments.

No Sinking Fund. There is no sinking fund with respect to dividends on the Series A Preferred Stock and the Series A Preferred Stock will not be subject to mandatory redemption or other similar provisions. The Treasury will have no right to require redemption or repurchase any of the shares of Series A Preferred Stock.

Restrictions on Dividends and Repurchases

Restrictions on Dividends. So long as the Series A Preferred Stock remains outstanding, Carolina Alliance may declare and pay dividends on Carolina Alliance's common stock, and any other shares of Junior Stock (as defined below) or Parity Stock (as defined below), only if, after giving effect to the dividend, Carolina Alliance's Tier 1 capital would be at least equal to the Tier 1 Dividend Threshold (as defined below) and full dividends on all outstanding shares of Series A Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid.

If a dividend is not declared and paid in full on the Series A Preferred Stock for any dividend period, then from the last day of that dividend period until the last day of the third dividend period immediately following it, no dividend or distribution may be declared or paid on Carolina Alliance's common stock or any other shares of Junior Stock (other than dividends payable solely in shares of common stock) or Parity Stock; provided, however, that in any such dividend period in which a dividend is declared and paid on the Series A Preferred Stock, dividends may be paid on Parity Stock to the extent necessary to avoid any material breach of any covenant to which Carolina Alliance is bound. "Junior Stock" means Carolina Alliance's common stock and any other class or series of Carolina Alliance's stock the terms of which expressly provide that it ranks junior to the Series A Preferred Stock as to dividend and redemption rights and/or as to rights on Carolina Alliance's liquidation, dissolution or winding up. Currently, Carolina Alliance's common stock is the only class of stock outstanding that constitutes Junior Stock.

"Parity Stock" means any class or series of Carolina Alliance's stock, other than the Series A Preferred Stock, the terms of which do not expressly provide that such class or series will rank senior or junior to the Series A Preferred Stock as to dividend rights and/or as to rights upon Carolina Alliance's liquidation, dissolution or winding up, in each case without regard to whether dividends accrue cumulatively or non-cumulatively.

The "Tier 1 Dividend Threshold" means, as of any particular date, the sum of (x) (i) the Signing Date Tier 1 Capital Amount, which is $22,516,000, plus (ii) the aggregate Liquidation Amount of the Series A Preferred Stock issued, minus (iii) the aggregate of Charge-Offs since the Signing Date, August 23, 2011, multiplied by (y) 0.9 then, if applicable, subtract from all of the above, the following, beginning on the first day of the 11th dividend period following the date of issuance of the Series A Preferred Stock, by $500,000 (10% of the aggregate liquidation amount of the Series A Preferred Stock initially issued, without regard to any subsequent partial redemptions) for each 1% increase in QSBL from the Baseline level to the ninth dividend period.

Restrictions on Repurchases. So long as the Series A Preferred Stock remains outstanding, Carolina Alliance may repurchase or redeem shares of Capital Stock (as defined below) only if (i) after giving effect to such repurchase or redemption, Carolina Alliance's Tier 1 capital would be at least equal to the Tier 1 Dividend Threshold and (ii) dividends on all outstanding shares of Series A Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid (or have been declared and a sum sufficient for payment has been set aside for the benefit of the holders of the Series A Preferred Stock as of the applicable record date).

If a dividend is not declared and paid on the Series A Preferred Stock for any dividend period, then from the last day of that dividend period until the last day of the third dividend period immediately following it, neither Carolina Alliance nor any of Carolina Alliance's subsidiaries may redeem, purchase or acquire any shares of Carolina Alliance's common stock, Junior Stock, Parity Stock or other capital stock or other equity securities of any kind of Carolina Alliance or its subsidiaries, or any trust preferred securities issued by Carolina Alliance or by any of Carolina Alliance's affiliates ("Capital Stock"), (other than (i) redemptions, purchases, repurchases or other acquisitions of the Series A Preferred Stock, (ii) repurchases of common stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business (including purchases to offset any Share Dilution Amount (as defined below) pursuant to a publicly announced repurchase plan) and consistent with past practice; provided that any purchases to offset the Share Dilution Amount may not exceed the Share Dilution Amount, (iii) the acquisition by Carolina Alliance or by any of Carolina Alliance's subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than Carolina Alliance or any of Carolina Alliance's subsidiaries), including as trustees or custodians, (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case solely to the extent required pursuant to binding agreements entered into prior to August 23, 2011 or any subsequent agreement for the accelerated exercise, settlement or exchange of these types of securities for Carolina Alliance's common stock, (v) redemptions of securities held by Carolina Alliance or by any of Carolina Alliance's wholly owned subsidiaries, and (vi) redemptions, purchases or other acquisitions of capital stock or other equity securities of any kind of any of Carolina Alliance's subsidiaries required pursuant to binding agreements entered into prior to August 23, 2011.

"Share Dilution Amount" means the increase in the number of diluted shares outstanding (determined in accordance with GAAP applied on a consistent basis, and as measured from June 30, 2011) resulting from the grant, vesting or exercise of equity-based compensation to employees and equitably adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction.

Further, at any time after August 23, 2021, if Carolina Alliance is not required to file reports with the U.S. Securities and Exchange Commission or Carolina Alliance's primary banking regulator and no class of Carolina Alliance's securities is listed on a national securities exchange, then if any shares of the Series A Preferred Stock remain outstanding, neither Carolina Alliance nor Carolina Alliance's subsidiaries may, directly or indirectly, purchase, redeem or otherwise acquire for consideration any shares of Carolina Alliance's common stock or any Junior Stock or Parity Stock.

Liquidation Rights

In the event of Carolina Alliance's voluntary or involuntary liquidation, dissolution or winding up, holders of the Series A Preferred Stock will be entitled to receive for each share of Series A Preferred Stock held, out of Carolina Alliance's assets or proceeds thereof available for distribution to Carolina Alliance's shareholders, subject to any rights of Carolina Alliance's creditors, before any distribution of assets or proceeds is made to or set aside for the holders of Carolina Alliance's common stock and any other class or series of Carolina Alliance's stock ranking

junior to the Series A Preferred Stock, payment of an amount equal to the sum of (i) the $1,000 liquidation preference amount per share and (ii) the amount of any accrued and unpaid dividends on the Series A Preferred Stock. To the extent the assets or proceeds thereof available for distribution to shareholders are not sufficient to fully pay the liquidation payments owing to the holders of the Series A Preferred Stock and the holders of any other class or series of Carolina Alliance's stock ranking equally with the Series A Preferred Stock, the holders of the Series A Preferred Stock and such other stock will share ratably in any such distribution.

For purposes of the liquidation rights of the Series A Preferred Stock, a merger or consolidation of Carolina Alliance with another entity or the sale, lease or exchange of all or substantially all of Carolina Alliance's assets will not constitute a liquidation, dissolution or winding up of Carolina Alliance.

Redemption and Repurchases

Subject to the approval of the FDIC, the Series A Preferred Stock is redeemable at Carolina Alliance's option in whole or in part at any time and from time to time. In addition, if there is a change in the law that modifies the terms of Treasury's investment in the Series A Preferred Stock or the terms of the SBLF program in a materially adverse respect for Carolina Alliance, Carolina Alliance may, after consultation with the FDIC, redeem all of the shares of Series A Preferred Stock. The per-share redemption price will be equal to the sum of the liquidation preference amount per share of $1,000 plus the per-share amount of any unpaid dividends for the then current dividend period to, but excluding, the date of redemption (regardless of whether any dividends are actually declared for that dividend period) and the pro rata amount of CPP Lending Incentive Fees for the current Dividend Period.

To exercise the redemption right described above, Carolina Alliance must give notice of the redemption to the holders of record of the Series A Preferred Stock by first class mail, not less than thirty (30) days and not more than sixty (60) days before the date of redemption. The notice of redemption must state: (i) the redemption date; (ii) the number of shares of Series A Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; and (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price. In the case of a partial redemption of the Series A Preferred Stock, the shares to be redeemed will be selected either pro rata or in such other manner as Carolina Alliance's board of directors or a committee of the board determines to be fair and equitable, provided that shares representing at least 25% of the aggregate liquidation amount of the Series A Preferred Stock are redeemed.

Shares of Series A Preferred Stock that Carolina Alliance redeems, repurchases or otherwise acquires will revert to authorized but unissued shares of preferred stock, which may then be reissued by Carolina Alliance as any series of preferred stock other than the Series A Preferred Stock.

No Conversion Rights

Holders of the Series A Preferred Stock have no right to exchange or convert their shares into common stock or any other securities.

No Preemptive Rights

Holders of the Series A Preferred Stock have no right to acquire additional shares of Carolina Alliance's capital stock if Carolina Alliance issues any shares of capital stock in the future.

Voting Rights

The holders of the Series A Preferred Stock do not have voting rights other than those described below, except to the extent from time to time required by law.

If dividends on the Series A Preferred Stock have not been declared and paid in full within five (5) business days after each dividend payment date for an aggregate of five (5) or more dividend periods, whether or not consecutive, Carolina Alliance must invite a representative selected by the holders of a majority of the outstanding shares of Series A Preferred Stock, voting as a single class, to attend all meetings of Carolina Alliance's board of directors in a nonvoting observer capacity and give such representative copies of all notices, minutes, consents and

other materials that Carolina Alliance provides to Carolina Alliance's directors in connection with such meetings. The holders of the Series A Preferred Stock are not obligated to select such a representative and such a representative, if selected, is not obligated to attend any meeting to which he or she is invited. This right of the holders of the Series A Preferred Stock will terminate when full dividends have been timely paid for at least four (4) consecutive dividend periods, subject to revesting in the event Carolina Alliance again fails to declare and pay dividends in full on the Series A Preferred Stock for five (5) or more dividend periods.

If dividends on the Series A Preferred Stock have not been declared and paid in full within five (5) business days after each dividend payment date for an aggregate of six (6) or more dividend periods, whether or not consecutive, and (ii) the aggregate liquidation preference of the then-outstanding shares of Series A Preferred Stock is greater than or equal to $25,000,000, the authorized number of directors of Carolina Alliance shall automatically be increased by two and the holders of the Series A Preferred Stock, voting as a single class, shall have the right, but not the obligation, to elect two directors (hereinafter the "Preferred Directors" and each a "Preferred Director") to fill such newly created directorships at Carolina Alliance's next annual meeting of shareholders (or, if the next annual meeting is not yet scheduled or is scheduled to occur more than thirty days later, the president of Carolina Alliance shall promptly call a special meeting for that purpose) and at each subsequent annual meeting of shareholders until full dividends have been timely paid on the Series A Preferred Stock for at least four consecutive dividend periods, at which time such right shall terminate with respect to the Series A Preferred Stock. Upon any termination of the right of the holders of shares of Series A Preferred Stock to vote for directors as provided above, the Preferred Directors shall cease to be qualified as directors, the term of office of all Preferred Directors then in office shall terminate immediately and the authorized number of directors shall be reduced by the number of Preferred Directors elected pursuant hereto.

In addition to any other vote or consent required by law or by Carolina Alliance's charter, the written consent of (i) Treasury, if Treasury holds any shares of Series A Preferred Stock, or (ii) the holders of a majority of the outstanding shares of Series A Preferred Stock, voting as a single class, if Treasury does not hold any shares of Series A Preferred Stock, is required in order to do the following:

- amend Carolina Alliance's articles of incorporation or the certificate of designation for the Series A Preferred Stock to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of stock ranking senior to the Series A Preferred Stock with respect to the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of Carolina Alliance;

- amend Carolina Alliance's articles of incorporation or the certificate of designation for the Series A Preferred Stock in a way that materially and adversely affects the rights, preferences, privileges or voting powers of the Series A Preferred Stock;

- consummate a binding share exchange or reclassification involving the Series A Preferred Stock or Carolina Alliance's merger or consolidation with another entity, unless (i) the shares of Series A Preferred Stock remain outstanding or, in the case of a merger or consolidation in which Carolina Alliance is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (ii) the shares of Series A Preferred Stock remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions, that are the same as the rights, preferences, privileges and voting powers, and limitations and restrictions, of the Series A Preferred Stock immediately prior to consummation of the transaction, taken as a whole;

- sell all, substantially all or any material portion of Carolina Alliance's assets, if the Series A Preferred Stock will not be redeemed in full contemporaneously with the consummation of such sale; or

- consummate a Holding Company Transaction (as defined below), unless as a result thereof each share of Series A Preferred Stock will be converted into or exchanged for one share with an equal liquidation preference of preference securities of Carolina Alliance or the acquirer (the "Holding Company Preferred Stock"). Any such Holding Company Preferred Stock must entitle its holders to dividends from the date of issuance of such stock on terms that are equivalent to the terms of the Series A Preferred Stock and have such other rights, preferences, privileges and voting powers, and limitations and restrictions, that are the

same as the rights, preferences, privileges and voting powers, and limitations and restrictions, of the Series A Preferred Stock immediately prior to such conversion or exchange, taken as a whole;

provided, however, that any increase in the amount of Carolina Alliance's authorized shares of preferred stock or the creation and issuance, or an increase in the authorized or issued amount, of any other series of preferred stock, or any securities convertible into or exchangeable or exercisable for any other series of preferred stock, ranking equally with and/or junior to the Series A Preferred Stock with respect to the payment of dividends, whether such dividends are cumulative or non-cumulative, and the distribution of assets upon Carolina Alliance's liquidation, dissolution or winding up, will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series A Preferred Stock and will not require the vote or consent of the holders of the Series A Preferred Stock.

A "Holding Company Transaction" means the occurrence of (a) any transaction that results in a person or group (i) becoming the direct or indirect ultimate beneficial owner of common equity of Carolina Alliance representing more than 50% of the voting power of the outstanding shares of Carolina Alliance's common stock or (ii) being otherwise required to consolidate Carolina Alliance for GAAP purposes, or (b) any consolidation or merger of Carolina Alliance or similar transaction or any sale, lease or other transfer in one transaction or a series of related transactions of all or substantially all of Carolina Alliance's consolidated assets to any person other than one of Carolina Alliance's subsidiaries; provided that, in the case of either clause (a) or (b), Carolina Alliance or the acquirer is or becomes a bank holding company or savings and loan holding company.

To the extent holders of the Series A Preferred Stock are entitled to vote, holders of shares of the Series A Preferred Stock will be entitled to one vote for each share then held.

The voting provisions described above will not apply if, at or prior to the time when the vote or consent of the holders of the Series A Preferred Stock would otherwise be required, all outstanding shares of the Series A Preferred Stock have been redeemed by Carolina Alliance or called for redemption upon proper notice and sufficient funds have been deposited by Carolina Alliance in trust for the redemption.

Size of Board of Directors

PBSC Financial

PBSC Financial's bylaws provide that the number of directors constituting its board of directors shall not be less than five nor more than 15. The number of directors may be fixed or changed within this minimum and maximum by PBSC Financial's shareholders by the affirmative vote of two-thirds of the issued and outstanding shares entitled to vote or by the PBSC Financial board of directors by the affirmative vote of two-thirds of all directors then in office. PBSC Financial currently has 10 directors.

Carolina Alliance

Carolina Alliance's bylaws provide that the number of directors shall be fixed from time to time by resolution of at least a majority of the directors then in office, but may not consist of fewer than five nor more than 25 members. Carolina Alliance currently has 15 directors, and immediately after the merger will have a total of 18 directors, including three current members of the PBSC Financial board of directors. As described above, as a condition to the merger, Carolina Alliance will enter into a commitment agreement with each of the three current PBSC Financial directors appointed to the board of directors of Carolina Alliance to memorialize such individuals' future nomination to the board of directors of Carolina Alliance. Carolina Alliance also intends to reduce the size of the board of directors from 18 directors to 15 directors at or prior to the 2017 annual meeting of shareholders, although such reduction will not affect the number of former PBSC Financial directors then serving on the board of directors of Carolina Alliance. Carolina Alliance's bylaws provide that shareholders may remove a director with or without cause by a majority vote of those entitled to vote in an election of directors. Carolina Alliance's bylaws provide that all vacancies on the board may be filled by a majority of the remaining directors for the unexpired term; provided that the shareholders have the right at any special meeting called for such purpose prior to action by the board of directors to fill the vacancy.

Classification of Directors

PBSC Financial

A "classified" or "staggered" board of directors is a board that is comprised of directors that have different overlapping, multi-year terms, so that not all of the directors' terms expire in the same year. PBSC Financial does not have a classified board of directors, as PBSC Financial's bylaws provide that each of its directors shall be elected annually to serve a one-year term.

Carolina Alliance

Carolina Alliance has a classified board. Specifically, when there are six or more directors, Carolina Alliance's articles of incorporation divide its board of directors into three classes of directors serving staggered three-year terms.

Election of Directors

PBSC Financial

As noted above, PBSC Financial's directors are elected to one-year terms. Director elections occur at PBSC Financial's annual meeting of shareholders. Those nominees for director who receive the highest number of votes at the annual meeting are deemed to have been elected. Shareholders of PBSC Financial do not have cumulative voting rights.

Carolina Alliance

Carolina Alliance's bylaws also provide that all elections are determined by a plurality of the votes cast, in person or by proxy, at a meeting of shareholders at which a quorum is present. Shareholders of Carolina Alliance do not have cumulative voting rights.

Removal of Directors

PBSC Financial

PBSC Financial's bylaws provide that a director may be removed with or without cause by a vote of shareholders. A director will be removed with cause only upon the affirmative vote of the holders of a majority of the issued and outstanding shares of PBSC Financial, and a director will be removed without cause only upon the affirmative vote of the holders of at least two-thirds of the issued and outstanding shares of PBSC Financial.

Carolina Alliance

Carolina Alliance's bylaws provide that unless provided otherwise by its articles of incorporation, directors may be removed with or without cause by the affirmative vote of the holders of at least a majority of the shares entitled to vote at an election of directors, such vote being taken at a meeting of the shareholders called for that purpose at which a quorum is present.

Filling Vacancies on the Board of Directors

PBSC Financial

PBSC Financial's bylaws provide that vacancies on its board of directors may be filled by the remaining members of the PBSC Financial board of directors. The term of a director appointed to fill a vacancy continues until the expiration of the term of the director whose place has become vacant or, in the case of an increase in the number of directors, until the next meeting of shareholders at which directors are elected.

Carolina Alliance

Carolina Alliance's bylaws provide that vacancies on the board of directors shall be filled by a majority of the votes of the remaining members of the board of directors; provided that the shareholders may elect a director to fill any vacancy not filled by the prior action of the board of directors at a special meeting of shareholders. The term of a director appointed to fill a vacancy expires at the next shareholders' meeting wherein directors are elected. The board is prohibited from increasing or decreasing the board by more than 30% of the number of directors last approved by shareholders.

Nomination of Director Candidates

PBSC Financial

Nominations of persons to serve as directors of PBSC Financial may be made by (i) the board of directors, (ii) a committee of the board of directors, or (iii) any shareholder of common stock entitled to vote at the meeting for the election of directors. All nominations by shareholders must be in writing and delivered to PBSC Financial's secretary not less than 30 days prior to the meeting; provided, however, that in the event that less than 40 days' notice or prior public disclosure of the date of the meeting is given or made to the PBSC Financial shareholders, notice by the shareholder must be received by the secretary not later than the close of business on the tenth day following the day on which such notice of the date of the meeting is mailed or such public disclosure was made. The shareholder's notice must set forth (i) as to each nominee, all information relating to the nominee as required to be disclosed in the solicitation of proxies for election of directors pursuant to Regulation 14A under the Exchange Act (including the nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (ii) as to the shareholder giving the notice (A) the name and address of such shareholder as they appear on the books of PBSC Financial and (B) the class and number of shares of PBSC Financial capital stock that are beneficially owned by such shareholder.

Carolina Alliance

Carolina Alliance's bylaws provide nomination of persons to serve as directors of Carolina Alliance, other than those made by or on behalf of the board of directors of Carolina Alliance, shall be made in writing and shall be delivered to the secretary of Carolina Alliance no later than (i) with respect to an election to be held at an annual meeting of shareholders, 90 days in advance of such meeting; and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each notice shall set forth: (i) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of stock of Carolina Alliance entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission relating to the election of directors; and (v) the consent of each nominee to serve as a director of Carolina Alliance if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure. The chairman of any such meeting, for good cause shown and with proper regard for the orderly conduct of business at the meeting, may waive in whole or in part the operation of this section of Carolina Alliance's bylaws.

Shareholder Action Without Meeting

PBSC Financial

Under South Carolina law, any action required or permitted to be taken by shareholders at a meeting may be taken without a meeting if a written consent describing the action to be taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof. PBSC Financial's organizational documents do not alter the default rules under South Carolina law.

Carolina Alliance

As noted above, under South Carolina law, any action required or permitted to be taken by shareholders at a meeting may be taken without a meeting if a written consent describing the action to be taken is signed by all of the shareholders entitled to vote with respect to the subject matter thereof. Carolina Alliance's organizational documents do not alter the default rules under South Carolina law.

Calling Meetings of Shareholders

PBSC Financial

PBSC Financial's bylaws provide that special meetings of shareholders may be called at any time by (i) the board of directors, (ii) the president, (iii) the chief executive officer, or (iv) PBSC Financial upon the written request of any one or more shareholders owning an aggregate of not less than 10% of the outstanding capital stock of PBSC Financial. Special meetings shall be held at such a time and place and on such date as shall be specified in the notice of the meeting.

Carolina Alliance

Carolina Alliance's bylaws provide that special meetings of shareholders may be called at any time for any purpose by Carolina Alliance's chief executive officer, president, or chairman of the board of directors, or by a majority of the board of directors. Carolina Alliance's bylaws provide that Carolina Alliance shall also call a special meeting if the holders of at least 10 percent of all the votes entitled to be cast on any issue proposed to be considered at such special meeting sign, date and deliver to the secretary of Carolina Alliance one or more written demands for the meeting. Such written demands shall be delivered to the secretary by certified mail, return receipt requested. Such written demands sent to the secretary of Carolina Alliance shall set forth as to each matter the shareholder or shareholders propose to be presented at the special meeting (i) a description of the purpose or purposes for which the meeting is to be held (including the specific proposal(s) to be presented); (ii) the name and record address of the shareholder or shareholders proposing such business; (iii) the class and number of shares of Carolina Alliance that are owned of record by the shareholder or shareholders as of a date within 10 days of the delivery of the demand; (iv) the class and number of shares of Carolina Alliance that are held beneficially, but not held of record, by the shareholder or shareholders as of a date within 10 days of the delivery of the demand; and (v) any interest of the shareholder or shareholders in such business. Any such special shareholders' meeting shall be held at a location designated by the board of directors. The board of directors may set such rules for any such meeting as it may deem appropriate, including when the meeting will be held (subject to any requirements of the Code of Laws of South Carolina), the agenda for the meeting (which may include any proposals made by the board of directors), who may attend the meeting in addition to shareholders of record and other such matters.

Indemnification of Directors, Officers, and Employees

PBSC Financial

South Carolina law prescribes the extent to which directors and officers will be indemnified by PBSC Financial. A corporation, with certain exceptions, may indemnify a current or former director against liability if (i) he conducted himself in good faith, (ii) he reasonably believed (x) that his conduct in his official capacity with the corporation was in its best interest and (y) his conduct in other capacities was at least not opposed to the corporation's best interest, and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. A corporation may not indemnify a current or former director in connection with a proceeding by or in the right of the corporation in which he was adjudged liable to the corporation or in connection with a proceeding charging improper personal benefit to him. The above standard of conduct is determined by the board of directors (or a committee thereof), special legal counsel or the shareholders.

PBSC Financial must indemnify a director or officer in the defense of any proceeding to which such person was a party because of his or her capacity as officer or director against reasonable expenses when such person is wholly successful in his or her defense, unless the articles of incorporation provide otherwise. Upon application, the court may order indemnification of the director or officer if such person is adjudged fairly and reasonably so entitled. PBSC Financial also may indemnify and advance expenses to an officer, employee or agent who is not a

director to the same extent as a director or as otherwise set forth in the corporation's articles or bylaws or by resolution of the board of directors or by contract.

Carolina Alliance

South Carolina law prescribes the extent to which directors and officers will be indemnified by Carolina Alliance. A corporation, with certain exceptions, may indemnify a current or former director against liability if (i) he conducted himself in good faith, (ii) he reasonably believed (x) that his conduct in his official capacity with the corporation was in its best interest and (y) his conduct in other capacities was at least not opposed to the corporation's best interest, and (iii) in the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. A corporation may not indemnify a current or former director in connection with a proceeding by or in the right of the corporation in which he was adjudged liable to the corporation or in connection with a proceeding charging improper personal benefit to him. The above standard of conduct is determined by the board of directors (or a committee thereof), special legal counsel or the shareholders.

Carolina Alliance must indemnify a director or officer in the defense of any proceeding to which such person was a party because of his or her capacity as officer or director against reasonable expenses when such person is wholly successful in his or her defense, unless the articles of incorporation provide otherwise. Upon application, the court may order indemnification of the director or officer if such person is adjudged fairly and reasonably so entitled. Carolina Alliance also may indemnify and advance expenses to an officer, employee or agent who is not a director to the same extent as a director or as otherwise set forth in the corporation's articles or bylaws or by resolution of the board of directors or by contract.

Limitation of Liability for Directors

PBSC Financial

PBSC Financial's articles of incorporation provide that, to the maximum extent permitted by the SCBCA, its directors shall not be personally liable to Carolina Alliance or its shareholders for monetary damages for breach of fiduciary duty, except for liability for (i) any breach of the director's duty of loyalty to the corporation or its shareholders; (ii) acts or omissions not in good faith or which involve gross negligence, intentional misconduct or a knowing violation of law; (iii) the types of liability set forth in Section 33-8-330 of the SCBCA dealing with unlawful distributions of the corporate assets to shareholders; or (iv) any transaction from which the director derived an improper material tangible personal benefit. PBSC Financial's articles of incorporation also provide that PBSC Financial shall, to the fullest extent permitted by the SCBCA, indemnify each director from an against any and all of the expenses, liabilities or other matters referred to in or covered by the SCBCA and such indemnification shall not be deemed exclusive rights to which the directors may be entitled to under any bylaw, vote of shareholders or disinterested directors, or otherwise, both as to action in their official capacity and as to action in another capacity while holding such office and shall continue as a to a person who has ceased to be a director and shall inure to the benefit of the heirs, executors and administrators of such person. PBSC Financial's bylaws provide that the corporation shall indemnify directors for reasonable expenses, judgments, fines, penalties and amounts paid in settlement (including attorneys' fees) incurred in connection with the proceeding if the director acted in a manner he or she believed in good faith to be in or not opposed to the best interests of the corporation and, in the case of any criminal proceeding, the director had no reasonable cause to believe his or her conduct was unlawful.

Carolina Alliance

Carolina Alliance's articles of incorporation provide that, to the maximum extent permitted by § 33-2-102(e) of the SCBCA, its directors shall not be personally liable to Carolina Alliance or its shareholders for monetary damages for breach of fiduciary duty. Carolina Alliance's bylaws provide that, except to the extent provided otherwise in the articles of incorporation, Carolina Alliance shall indemnify and hold harmless, to the fullest extent permitted by applicable law and public policy, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or other proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a director of Carolina Alliance.

Amendment to Articles of Incorporation

PBSC Financial

Unless otherwise set forth therein, any amendments to the articles of incorporation of PBSC Financial recommended by the board of directors of PBSC Financial may be approved by vote of a majority of the shares entitled to vote on such amendment.

Carolina Alliance

Carolina Alliance's articles of incorporation may be amended at any regular or special meeting of the shareholders by the affirmative vote of the holders of a majority of the stock of Carolina Alliance, unless the vote of the holders of a greater amount of stock is required by law, and in that case by the vote of the holders of such greater amount. Carolina Alliance's board of directors may propose one or more amendments to the articles of incorporation for submission to the shareholders.

Amendment to Bylaws

PBSC Financial

PBSC Financial's bylaws may be altered, amended or repealed or new bylaws may be adopted at any meeting of the board of directors at which a quorum is present, by the affirmative vote of a majority of the directors then in office. The bylaws may also be altered, amended or repealed or new bylaws may be adopted at any meeting of the shareholders at which a quorum is present or represented by proxy, by the affirmative vote of the holders of a majority of each class of shares entitled to elect directors, provided notice of the general nature of the proposed change in the bylaws is contained in the notice of the meeting. Upon adoption of any new bylaw by the shareholders, the shareholders may provide expressly that the board of directors may not adopt, amend or repeal that bylaw or any bylaw on that subject.

Carolina Alliance

Except to the extent required otherwise by law, Carolina Alliance's bylaws may be altered, amended or repealed or new bylaws may be adopted at any meeting of the board of directors at which a quorum is present, by the affirmative vote of a majority of the directors then in office, provided notice of the proposed alteration, amendment or repeal is contained in the notice of the meeting. Except to the extent required otherwise by law, the bylaws may also be altered, amended or repealed or new bylaws may be adopted at any meeting of the shareholders at which a quorum is present or represented by proxy, by the affirmative vote of the holders of a majority of each class of shares entitled to vote thereon, provided notice of the proposed alteration, amendment or repeal is contained in the notice of the meeting. Upon adoption of any new bylaw by the shareholders, the shareholders may provide expressly that the board of directors may not adopt, amend or repeal that bylaw or any bylaw on that subject.

Shareholder Vote on Fundamental Issues

PBSC Financial

Under South Carolina law, a plan of merger must generally be approved by the affirmative vote of the holders of at least two-thirds of the votes entitled to be cast on the plan regardless of the class or voting group to which the shares belong, and two-thirds of the votes entitled to be cast on the plan within each voting group entitled to vote as a separate voting group on the plan. A corporation's articles of incorporation may require a lower or higher vote for approval, but the required vote must be at least a majority of the votes entitled to be cast on the plan by each voting group entitled to vote separately on the plan. In addition, to authorize the sale, lease, exchange, or other disposition of all or substantially all of the property of a corporation, other than in the usual and regular course of business, or to voluntarily dissolve the corporation, South Carolina law requires the affirmative vote of at least two-thirds of all the votes entitled to be cast on the transaction. A corporation's articles of incorporation may require a lower or higher vote for approval, but the required vote must be at least a majority of all the votes entitled to be cast on the transaction.

Pursuant to the articles of incorporation of PBSC Financial, (i) if the plan of merger or share exchange of PBSC Financial with or into any other corporation, or the sale, lease, exchange or other disposition of all or substantially all of the assets of PBSC Financial to any other corporation, person or other entity has been approved by a majority of the board of directors of PBSC Financial but less than two-thirds of the board, then the merger must be approved by at least two-thirds of the shares of each class of PBSC Financial stock entitled to vote thereon, and (ii) if the plan of merger or share exchange of PBSC Financial with or into any other corporation, or the sale, lease, exchange or other disposition of all or substantially all of the assets of PBSC Financial to any other corporation, person or other entity has been approved by two-thirds or more of the board of directors of PBSC Financial, then the merger must be approved by at least a majority of the shares of each class of PBSC Financial's stock entitled to vote thereon.

Carolina Alliance

Under South Carolina law, a plan of merger must generally be approved by the affirmative vote of the holders of at least two-thirds of the votes entitled to be cast on the plan regardless of the class or voting group to which the shares belong, and two-thirds of the votes entitled to be cast on the plan within each voting group entitled to vote as a separate voting group on the plan. A corporation's articles of incorporation may require a lower or higher vote for approval, but the required vote must be at least a majority of the votes entitled to be cast on the plan by each voting group entitled to vote separately on the plan. Carolina Alliance's articles of incorporation do not alter the default rules of South Carolina law.

Under South Carolina law, to authorize the sale, lease, exchange, or other disposition of all or substantially all of the property of a corporation, other than in the usual and regular course of business, or to voluntarily dissolve the corporation, South Carolina law requires the affirmative vote of at least two-thirds of all the votes entitled to be cast on the transaction. A corporation's articles of incorporation may require a lower or higher vote for approval, but the required vote must be at least a majority of all the votes entitled to be cast on the transaction. Carolina Alliance's articles of incorporation do not alter the default rules of South Carolina law.

Notice for Shareholder Proposals

PBSC Financial

With the exception of nominations for directors as described above, PBSC Financial's bylaws do not contain any advance notice procedures for shareholder proposals.

Carolina Alliance

Carolina Alliance's bylaws provide that a shareholder must give written notice to the secretary of Carolina Alliance not less than 30 nor more than 60 days in advance of the annual meeting (provided, however, that if less than 31 days' notice of the meeting is given to shareholders, such written notice shall be delivered or mailed to the secretary not later than the close of the tenth day following the day on which notice of the meeting was mailed to shareholders).

Share Restrictions

PBSC Financial

The transfer of PBSC Financial common stock is governed by a shareholders agreement by and among PBSC Financial and each shareholder of PBSC Financial. In general, under the terms of the shareholders agreement, no shareholder of PBSC Financial may sell, assign, transfer, pledge, hypothecate, mortgage, encumber or otherwise dispose of any shares, whether voluntarily, involuntarily or by operation of law, except as expressly provided in the shareholders agreement. Each certificate evidencing shares of PBSC Financial common stock bears a legend referencing such transfer restrictions.

Carolina Alliance

Carolina Alliance's bylaws permit Carolina Alliance's board to impose restrictions on the transfer of shares to the maximum extent permitted by law. A restriction does not affect shares issued before the restriction was adopted unless the holders of the shares are parties to the restriction agreement or voted in favor of the restriction, and restrictions are valid and enforceable against the holder or a transferee of the holder if the restriction is authorized and its existence is noted conspicuously on the front or back of the certificate.

Control Share Acquisition Provisions

PBSC Financial

PBSC Financial has specifically opted out of coverage of the control share acquisition provisions of South Carolina law.

Carolina Alliance

Carolina Alliance has specifically opted out of coverage of the control share acquisition provisions of South Carolina law.

Business Combination Statute

PBSC Financial

PBSC Financial has specifically opted out of coverage of the business combination provisions of the South Carolina statute.

Carolina Alliance

South Carolina law prohibits specified "business combinations" with "interested shareholders" unless certain conditions are satisfied. The act defines an "interested shareholder" as any person (other than the corporation or any of its subsidiaries) that (i) beneficially owns 10% or more of the corporation's outstanding voting shares or (ii) at any time within the preceding two-year period beneficially owned 10% of the voting power of the corporation's outstanding shares and is an affiliate or associate of the corporation.

Covered business combinations with interested shareholders or an affiliate or associate of an interested shareholder include, among other transactions:

- merger of the corporation;
- sale, lease, exchange, mortgage, pledge, transfer, or other disposition of assets having a value equal to 10% or more of the value of all assets of the corporation, the value of all outstanding shares of the corporation, or the earning power or net income of the corporation;
- transfer of shares of the corporation equaling 5% or more of the market value of all outstanding shares of the corporation; and
- dissolution or liquidation of the corporation proposed by or under an arrangement with an interested shareholder or its affiliate or associate.

Covered business combinations are prohibited unless:

- the board of directors of the corporation approved of the business combination before the interested shareholder became an interested shareholder;
- a majority of shares not beneficially owned by the interested shareholder approved the combination; and

- certain transactional requirements are met.

Covered business combinations are prohibited for two years after an interested shareholder becomes interested unless the board of directors of the corporation approved of the business combination before the interested party became interested.

Carolina Alliance is subject to the business combination provisions of the South Carolina statute.

PROPOSAL NO. 2 – CAROLINA ALLIANCE DIRECTORS PROPOSAL

The Carolina Alliance board of directors is divided into three classes with staggered terms, so that the terms of only approximately one-third of the board members expire at each annual meeting. The current terms of the Class II directors will expire at the 2015 annual meeting of shareholders. The terms of the Class I directors expire at the 2017 annual shareholders meeting and the terms of the Class III directors will expire at the 2016 annual shareholders meeting. The Carolina Alliance directors and their classes are:

Class I	Class II	Class III
Terrence "Terry" L. Cash	Carl R. Bartlett	George M. Groome
T. Alexander Evins	W. Louis Bissette, Jr.	John D. Kimberly
John S. Poole	Marsha H. Gibbs	Susan H. McClinton
L. Terrell Sovey, Jr.	Samuel H. Maw, Jr.	D. Byrd Miller III
W. Lewis White, Sr.	R. Lamar Simpson	W. Allen Rogers, II

At the meeting, shareholders will elect five nominees as Class II directors to serve a three-year term, expiring at the 2018 annual meeting of shareholders. The directors will be elected by a plurality of the votes cast at the meeting. This means that the five nominees receiving the highest number of votes will be elected. Shareholders do not have cumulative voting rights with respect to the election of directors.

The Carolina Alliance board of directors recommends that shareholders vote "FOR" the director nominees.

If you submit a proxy but do not specify how you would like it to be voted, Messrs. Poole and Kimberly will vote your proxy to elect each nominee. If any of these nominees is unable or fails to accept nomination or election (which we do not anticipate), Messrs. Poole and Kimberly will vote instead for a replacement to be recommended by the board of directors, unless you specifically instruct otherwise in the proxy.

As previously noted, immediately following the effective time of the merger, Carolina Alliance will appoint the following three current directors of PBSC Financial to the board: Richard H. Sumerel, Larry A. Webb, and Marshall E. Franklin. Carolina Alliance's board of directors will then have a total of 18 members. Information regarding each of the PBSC Financial designees is included under "Proposal No. 2 – PBSC Financial Directors Proposal" beginning on page 102 of this joint proxy statement/offering circular. Carolina Alliance has agreed to cause each of the three PBSC Financial directors to be nominated for election by the shareholders to the board of directors of Carolina Alliance at the 2016 annual meeting of shareholders of Carolina Alliance. In addition, Carolina Alliance has agreed to cause to be nominated for election to the board of directors of Carolina Alliance at subsequent annual meetings that number of former PBSC Financial directors, which if elected by the Carolina Alliance shareholders, will result in three former PBSC Financial directors serving as directors of Carolina Alliance through the 2020 annual meeting of shareholders. As a condition to the merger, Carolina Alliance will enter into a commitment agreement with each of the three current PBSC Financial directors appointed to the board of directors of Carolina Alliance to memorialize such individuals' future nomination to the board of directors of Carolina Alliance. Carolina Alliance also intends to reduce the size of the board of directors from 18 directors to 15 directors at or prior to the 2017 annual meeting of shareholders, although such reduction will not affect the number of former PBSC Financial directors then serving on the board of directors of Carolina Alliance.

Set forth below is certain information about the director nominees.

Carl Raymond Bartlett, 74, Class I director, has served ten terms as Mayor of the Town of Black Mountain, NC. Mr. Bartlett is retired from Wachovia Bank of Charlotte, NC where he served from 1972-2004 and attained the position of Senior Vice President. He attended Appalachian State University and the Carolina School of Banking. In addition, he is a United States Naval Aviation veteran. Mr. Bartlett has received several professional, municipal, community, and civic awards including Governor's Order of The Long Leaf Pine. He has chaired successful heart, cancer and United Way drives and previously served as President of the Chamber of Commerce, Jaycees, Kiwanis Clubs. He is a current member and deacon of Swannanoa First Baptist Church where he also chairs the finance committee. In addition, he serves on the Swannanoa Valley Christian Ministry Foundation Board. Mr. Bartlett is a charter member of Moose and Oasis Shrine Clubs and previously served on the Board of Visitors of Appalachian

University and Montreat College. He has served more than thirty years as the Stadium Public Announcer for Owen High School and well known as the "Voice of the Warhorses".

W. Louis "Lou" Bissette, 71, Class II director, is Vice-Chairman of the board of directors of Carolina Alliance and former Chairman of the board of directors of Forest Commercial Bank. A North Carolina native, Louis Bissette grew up in High Point. He received his B.A. from Wake Forest in 1965, his J.D. from UNC-Chapel Hill in 1968, and his MBA from the University of Virginia in 1970. Lou lives in Asheville, where he practices law and serves of counsel at McGuire, Wood & Bissette, PA. His wide-ranging community leadership includes two terms as Mayor of Asheville, service on the Board of Mission-St. Joseph's Health System and as President of the Asheville Area Chamber of Commerce. He is serving his fifth term as a trustee on the Wake Forest University Board of Trustees. In addition, he is a Vice Chairman of the Board of Governors of the University of North Carolina System.

Marsha H. Gibbs, 60, Class II director, is a member of the executive management team at Gibbs International, Inc. She also is the author of "Growing with Grace." Mrs. Gibbs has more than fifteen years of experience serving on local bank boards. She was on the Board of Directors of Carolina Southern Bank from 1996 to 2001 and on the Advisory Board of the National Bank of South Carolina from 2001 to 2006. She is a member of the boards of directors of the Gibbs Foundation, Gibbs International, and the Spartanburg Regional Healthcare System Foundation. Ms. Gibbs also is on the board of trustees of Converse College. She has an associate degree in business from Spartanburg Community College. She has received numerous awards, including the 2003 Spartanburg Area Chamber of Commerce Neville Holcombe Outstanding Citizenship Award (with her husband, Jimmy) and the Wofford College Mary Mildred Sullivan Award. She also received the Mary Mildred Sullivan Award for Converse College in 2010. Mrs. Gibbs is also a 2004 Paul Harris Fellow, a 2004 Salvation Army Toast of the Town Honoree, the 2004-2005 United Way Volunteer of the Year for Spartanburg County, and Honorary Chair of The Imagination Library of Spartanburg and Union Counties.

Samuel H. Maw, Jr., 81, Class II director, retired as Executive Vice President of Flagstar Corporation in 1995 after 25 years with the company. He also is the co-owner of the Beacon Restaurant, which has been a landmark in Spartanburg County for decades. Mr. Maw earned his B.S. from Wofford College. He served as President and CEO of Denny's Inc. from 1988-1991 and has served on the South Carolina Forestry Commission Board. Mr. Maw also is a past president of the Wofford College Terrier Club and the former chairman of the board of the Spartanburg Regional Healthcare System Foundation. Mr. Maw is currently on the board of directors of Morris and Associates in Raleigh, NC and Winston Weaver, Inc. located in Winston Salem, NC. He served as a first lieutenant in the United States Army with duty in the United States and Germany. He also serves as a director on the Spartanburg Area Conservancy SPACE Board and Wofford College Terrier Club. In addition, he is a current board member of the Spartanburg Regional Hospital Foundation, Cancer Division.

R. Lamar Simpson, 56, Class II director, has served as the Chief Financial Officer of Carolina Alliance since inception of the bank and also currently serves as the Chief Operating Officer and Secretary of Carolina Alliance. In addition, he previously served as Treasurer of Carolina Alliance. Mr. Simpson is a certified public accountant with over 30 years of accounting and financial management experience. Prior to joining the bank, he had eight years experience as chief financial officer and corporate secretary of two publicly traded community financial institutions. From June 1996 to October 2001, he was the chief financial officer and corporate secretary of First Spartan Financial Corp and its subsidiary, First Federal Bank, a savings bank which was headquartered in Spartanburg, and from May 2002 to April 2005 he served as the chief financial officer of New Commerce Bancorp and its subsidiary bank, New Commerce Bank, a community bank which was located in Greenville, South Carolina. He also has 13 years experience in public accounting, where he served a broad range of clients, both publicly traded and privately held, in a wide range of industries including: financial services, healthcare, manufacturing, construction, and real estate. Mr. Simpson graduated from Erskine College with a B.A. in business administration. He is a member of the American Institute of Certified Public Accountants, the South Carolina Association of Certified Public Accountants, and the Financial Managers Society. Mr. Simpson has served as treasurer of Boys Home of the South and as a Meals on Wheels volunteer.

Set forth below also is information about each of Carolina Alliance's other directors and executive officers.

Terrence "Terry" L. Cash, 68, Class I director, is the Chairman of the board of directors of Carolina Alliance. He is the President and Chief Executive Officer of the Caman Group, Inc., which specializes in private investments in real estate, long-term care facilities, and pharmacies. Mr. Cash is a board member and Past

Chairman of Spartanburg Regional Healthcare System, board member of JM Smith Corporation, Trustee of Spartanburg County Foundation and Chairman of the VSP Foundation. Mr. Cash received his B.S. in Pharmacy Studies from the University of South Carolina in 1970. In addition, he was awarded the 1999 State of South Carolina Health and Human Services Leadership in Aging Award, and was named both the 1999 State of South Carolina Ambassador for Economic Development and the 2001 Spartanburg County Health Planning Department Volunteer of the Year. The South Carolina Hospital Association named Mr. Cash Distinguished Trustee of the Year in 2012.

T. Alexander Evins, 55, Class I director, is an attorney and partner in the firm Parker Poe Adams & Bernstein LLP, where he serves on the firm's board of directors. He has six years of experience on two previous bank advisory boards in Spartanburg. He served on Bank of America's Advisory Board for four years from 1999 to 2003 and on Wachovia's Advisory Board for two years, from 2004 to 2006.

He is general counsel for the Spartanburg Area Chamber of Commerce, and past president/general counsel of The Piedmont Club. Mr. Evins received his B.A. from the University of Georgia and received his J.D. from the University of South Carolina. Mr. Evins has been a devoted community volunteer for more than two decades. He currently serves the Spartanburg Day School as a sustaining trustee and is the incoming chair of the United Way of the Piedmont.

Mr. Evins also has served as President of the Country Club of Spartanburg; he has been co-chairman of both the Arts Partnership of Greater Spartanburg Cultural Arts Facility Fund Drive; and the Arts Partnership of Greater Spartanburg Arts Fund Drive. Mr. Evins has been very involved with the Spartanburg Area Chamber of Commerce, holding many positions including board chairman, vice-chairman for community improvement, and chairman of the Leadership Spartanburg Board of Regents. He was recognized in 2007 with the Neville Holcombe Distinguished Citizenship Award and as the 1997 Leadership Spartanburg Alumni Association Alumnus of the Year, and he was also named the Boss of the Year in 1986-87 by the Spartanburg County Legal Secretaries Association.

George M. Groome, 63, Class III director, is President and Chief Executive Officer of Colton Groome & Company, a financial strategies and benefits planning firm of Asheville, NC, having joined the firm in 1974. In addition, he is a managing member and registered investment advisor of CG Advisory Services, LLC in Asheville, NC. He also served as a board member of Forest Commercial Bank. As an Asheville native, he graduated from UNC Chapel Hill with a Bachelor of Science in Business Administration. He is a Chartered Financial Consultant, a Chartered Life Underwriter, and holds a Master of Science in Financial Services from The American College. He has 40 years of experience in financial services, technical expertise, and management.

John D. Kimberly, 50, Class III director, serves as President of Carolina Alliance. Most recently, he was President and Chief Executive Officer of Forest Commercial Bank in Asheville, North Carolina, a bank he helped organize which merged with Carolina Alliance in early 2014. Mr. Kimberly has over 25 years of banking experience including service as market president in western North Carolina for SunTrust Bank with responsibility for the retail, commercial, and private wealth management lines of business. He is a graduate of Wake Forest University with a B.A. in economics and attended the Graduate School of Banking of the South at Louisiana State University. He is a trustee and immediate past chairman of Mission Healthcare Foundation and a director of the United Way of Asheville and Buncombe County. Past service includes the boards of directors of the North Carolina Banker's Association, North Carolina Baptist Hospital, Mission Health, UNC-Asheville Foundation, Junior Achievement of Western North Carolina, and the Irene Wortham Center.

Susan "Sue" H. McClinton, 71, Class III director, is Treasurer and Owner of William S. Hein & Company, Inc., a legal publisher, located in Buffalo, NY serving since 1965. She currently serves on the board of directors of Sisters of Mercy of North Carolina Foundation and UNC Asheville Board of Trustee, where she was the past Board Chair. In addition, she has served as Vice Chairman of the Board for ABCCM, President of Junior League of Asheville Board, Chair of Physician Credentials Committee at Mission Hospital, President of The Health Adventure Board, and a former board member of Mountain Area Child and Family Center and Pack Place Arts and Science Center. Most recently, she served as a board member of Forest Commercial Bank.

She has been recognized with several awards including the Volunteer of Distinction award by the American Association of Junior League as well as the Outstanding Volunteer Fundraiser for WNC Chapter by the National

Society of Fundraising Executives. In addition, she was honored to serve as the Chair of the Search Committee that hired Anne Ponder, Chancellor of UNC Asheville in 2005 until 2014.

D. Byrd Miller III, 55, Class III director, currently serves as Chief Financial Officer, Treasurer, and a managing member of William Barnet & Son, LLC, a global supplier of fiber yarns and resins. He joined the company in 1992 after retiring from C&S Bank where he served from 1980-1992 and attained the position of Senior Vice President. Mr. Miller currently serves on the Spartanburg Regional Healthcare System Board, Clemson University Foundation Board, and the Mary Black Foundation Board. He is heavily involved in the Spartanburg community having served as Board Chair of the United Way of the Piedmont, Spartanburg County Foundation Investment Committee, Salvation Army Board, and SPACE (Spartanburg Area Conservation Endowment Conservancy), as well as graduating Leadership Spartanburg. In addition, Mr. Miller serves on the Advisory Board of Leadership South Carolina and previously served on the South Carolina Department of Natural Resources Wildlife and Freshwater Fisheries Advisory Board.

Mr. Miller received his B.S. in Administrative Management from Clemson University. Mr. Miller also graduated from the Stonier Graduate School of Banking at the University of Delaware in 1988.

John S. Poole, 62, Class I director, is the Chief Executive Officer of Carolina Alliance and also the former president of Carolina Alliance. Mr. Poole is a seasoned banker with more than 35 years of experience in the following key positions of responsibility: president and director, market executive, city executive, senior commercial lender, and branch manager. He served as President of Carolina Southern Bank, a Spartanburg area community bank, for approximately 10 years from 1992 to 2001. From 2001 until 2003, he served as upstate regional executive for the National Bank of South Carolina, which acquired Carolina Southern Bank. From 2003 until March 2006, Mr. Poole was president and chief executive officer of the Spartanburg Area Chamber of Commerce. Mr. Poole has received numerous professional awards, including the 1991 Young Banker of the Year Award from the South Carolina Bankers Association, the 2000 Spartanburg Area Chamber of Commerce Neville Holcombe Distinguished Citizenship Award, and the 2002 Spartanburg Development Association Alan R. Willis Society of Service Award. Mr. Poole is a graduate of the University of South Carolina (B.A. 1974, M.B.A. 1976) and is active in various civic organizations in Spartanburg County. He serves on the board of directors for Charles Lea Center. He is also chairman of the Spartanburg County Foundation. He also has served as Chairman for major institutions in the community that include United Way of the Piedmont, Spartanburg Area Chamber of Commerce, the Arts Partnership of Greater Spartanburg, and the Charles Lea Center.

W. Allen Rogers, II, 68, Class III director, has been a Principal and co-owner of the investment banking firm of Allen C. Ewing & Co., Jacksonville, FL since 2002 and works in the firm's Charlotte, NC office. In addition, he is a partner with the firm of Peter Browning Partners, LLC, a provider of board advisory services. Mr. Rogers began his professional career as a bank examiner with the Federal Reserve Bank of Atlanta. Later, he was with Tri-south Mortgage Investors and Kidder, Peabody & Co., also in Atlanta. In 1978, he co-founded Robison, McAulay & Rogers, a private investment banking firm, and Uvest Brokerage Services, a third-party provider of discount brokerage services for community banks, both in Charlotte. In 1986, Mr. Rogers joined Interstate Securities Corporation, which later became Interstate/Johnson Lane, where he served as head of the Investment Banking Department and a member of the Board of Directors. He was recruited in 1995 to establish an investment banking practice in Charlotte for KPMG.

Mr. Rogers is a graduate of Davidson College (AB-Economics) and The Wharton School of Finance and Commerce (MBA). He served as a first lieutenant in the U.S. Army with tours of duty in the United States and the Republic of Vietnam. He currently serves on the Board of Directors of Insteel Industries, Inc.; and he was a member of the Board of Directors of Forest Commercial Bank.

L. Terrell Sovey, Jr., 84, Class I director, has been the President of Management Advisory Services, Inc., an investment management and consulting company, since 1984, and is an active partner in several partnerships related to real estate and apparel manufacturing. In addition, he has served as the chairman and chief executive officer of Texfli Industries, president of M. Lowenstein, and vice president of financial planning and general manager of several operating divisions for Milliken & Company and cost control manager of the textile products division of Owens Corning Fiberglass in New York. Texfli and Lowenstein were publicly owned textile companies that were traded on the New York Stock Exchange. In 1983, he founded and organized Goldtex, Inc., a textile printing company, which was traded in a successful public offering in 1987. Mr. Sovey also served as a member of the

advisory board of the Manufacturer's Hanover Bank in New York, New York for two years and was a member of the Union League Club from 1970-1996. As a youth, he was active in the Boy Scouts and became the first Eagle Scout of his troop in Hartwell, GA.

Mr. Sovey received his B.S. in Industrial Engineering from Georgia Institute of Technology and has served on the alumni Board of Trustees and as chairman of the advisory board of the School of Systems and Industrial Engineering. In 1994 he was selected for membership in the first class of the Georgia Tech Academy of Distinguished Engineering Alumni, and in 2001 he was inducted into the School of Industrial Engineering and Georgia Institute of Technology Hall of Fame. He also attended the U.S. Navy Supply Officers School in Bayonne, New Jersey and served on destroyers during the Korean War retiring from the Navy in 1955. Mr. Sovey's involvement in the Spartanburg community includes service on the board of directors of JM Smith Corporation and Griffin Gear, Inc. He also is a longtime advisor and consultant to the president of Dearybury Oil and Gas, Inc. He was former chairman of the Spartanburg Regional Healthcare System Foundation, past chairman of the Spartanburg Day School and the Greater Spartanburg YMCA, and treasurer of the Charles Lea Center Foundation, and he has served as chairman of the board of deacons of the Westminster Presbyterian Church. Mr. Sovey has been reelected to serve on the Spartanburg Regional Healthcare System Foundation board.

W. Lewis White, Sr., 62, Class I director, is the Owner and President of the W. Lewis White Company, Inc., which specializes in residential and commercial real estate sales and development. From 1990-2002, Mr. White served on the board of directors for First Federal of South Carolina, helping guide the bank through several mergers. He began his real estate career in 1978 with Grier & Company. He started Cleveland-White Realtors in March of 1982 and sold his ownership interest in the company to his partners and started the W. Lewis White Company, Inc. in 1989. He is a member of the Spartanburg Board of Realtors and a member of the National Association of Realtors. Mr. White received his B.A. from Wofford College and is a graduate of the Realtor's Institute. He is an active member and past deacon of the First Presbyterian Church of Spartanburg.

PROPOSAL NO. 2 – PBSC FINANCIAL DIRECTORS PROPOSAL

Director Nominees

In addition to the merger proposal, PBSC Financial's shareholders will also vote on a proposal to elect ten directors to serve a one-year term expiring at the 2016 annual meeting. PBSC Financial's articles of incorporation provide that each of the directors is elected at the annual meeting. PBSC Financial's board of directors proposes that each nominee listed below be elected as a director of PBSC Financial to serve a term of one year until his or her successor is elected and qualified at the 2016 annual meeting. If the merger is completed, the separate corporate existence of PBSC Financial will cease, and only Richard H. Sumerel, Larry A. Webb, and Marshall E. Franklin will join the board of the surviving bank. The following table shows for each nominee: (i) his name; (ii) his or her age at December 31, 2014; (iii) how long he or she has been a director of PBSC Financial; (iv) his or her positions with PBSC Financial, other than as a director; and (v) his or her principal occupation.

Name (Age)	Director Since	Position with PBSC Financial Corporation and Business Experience
David G. Barnett (55)	2005	President and Chief Executive Officer of PBSC Financial Corporation
Marshall E. Franklin (52)	2014	Executive Vice President for Operations and Chief Operations Officer, of Bob Jones University, Greenville, South Carolina
Daniel P. Hamilton (38)	2010	Realtor with Keller Williams and a member of the SC House of Representatives
L. Jackson McConnell, Jr. (48)	2005	Chairman, Chief Executive Officer, and President of Pinnacle Bank, Elberton, Georgia
Fort M. Oglesby (68)	2005	Owner of Coldwell Banker Fort Realty in Hartwell, Georgia
Joseph M. Pazdan, II (54)	2006	Principal at McMillan Pazdan Smith Architects
W. Ronald Shaw (52)	2005	Vice President of Shaw Resources, Inc., Greenville, South Carolina
Laura E. Stille (44)	2005	Registered Dietician, Spartanburg, South Carolina
Richard H. Sumerel (64)	2005	Chief Operating Officer, Verdae Development, Inc., Greenville, South Carolina
Larry A. Webb (61)	2005	Chief Executive Officer, MedBridge Healthcare, Greenville, South Carolina

The PBSC Financial board of directors recommends that you vote FOR the election of the ten nominees named above.

PROPOSAL NO. 3 – CAROLINA ALLIANCE ACCOUNTANTS PROPOSAL

The board of directors of Carolina Alliance has appointed Elliott Davis Decosimo, LLC as the bank's independent auditor for the fiscal year ending December 31, 2015. Although Carolina Alliance is not required to seek shareholder ratification on the selection of its accountants, Carolina Alliance believes obtaining shareholder ratification is desirable. If the shareholders do not ratify the appointment of Elliott Davis Decosimo, LLC, the board of directors will re-evaluate the engagement of the bank's independent auditors. Even if the shareholders do ratify the appointment, the board of directors has the discretion to appoint a different independent auditor at any time during the year if the board believes that such a change would be in the best interest of the bank and its shareholders. Carolina Alliance anticipates that a representative from Elliott Davis Decosimo, LLC will attend the meeting and will be available to respond to appropriate questions from shareholders.

The Carolina Alliance board of directors unanimously recommends that shareholders vote "FOR" the ratification of the appointment of Elliott Davis Decosimo, LLC as Carolina Alliance's independent auditor for the fiscal year ending December 31, 2015.

PROPOSAL NO. 4 – ADJOURNMENT PROPOSAL

At each of their special shareholders' meetings, Carolina Alliance and PBSC Financial shareholders are being asked to consider and vote on a proposal to authorize management to adjourn the meeting to allow time for further solicitation of proxies if there are insufficient votes present at the meeting, in person or by proxy, to approve the merger.

Carolina Alliance's and PBSC Financial's board of directors recommend that Carolina Alliance and PBSC Financial shareholders, respectively, vote "FOR" the proposal to authorize management to adjourn the special shareholders' meetings to allow time for the further solicitation of proxies to approve the merger agreement.

INFORMATION ABOUT CAROLINA ALLIANCE

General

Carolina Alliance was organized on January 2, 2007 as a South Carolina state chartered bank. It conducts a general commercial and retail banking business principally in Spartanburg, Anderson and Seneca, South Carolina and Asheville, Hendersonville and Charlotte, North Carolina. At December 31, 2014, Carolina Alliance had total assets of approximately $418.0 million, net loans and leases of approximately $333 million, and total deposits of approximately $338 million.

Marketing

Service Area. Carolina Alliance currently serves its customers through five full-service banking offices – one office in the city of Spartanburg, South Carolina, which is located in Spartanburg County, one office in the city of Anderson, South Carolina, which is located in Anderson County, one office in the city of Seneca, South Carolina, which is located in Oconee County, one office in the city of Asheville, North Carolina, which is located in Buncombe County, and one office in the city of Hendersonville, North Carolina, which is located in Henderson County; one loan production office in the city of Charlotte, North Carolina, which is located in Mecklenburg County; and two leasing offices – one office in the city of Spartanburg, South Carolina, and one office in the city of Charlotte, North Carolina.

Economic and Demographic Factors.

South Carolina

Spartanburg County is located in the northwest portion of South Carolina. Spartanburg's economic history is rooted in agriculture and textiles. Today, the county is an internationally recognized business and cultural center. More than 85 international firms representing 15 nations have joined the local business community.

Spartanburg is located on two major interstates, I-85 and I-26, within 800 miles of more than half the nation's current manufacturing establishments, within three hours of the port of Charleston, South Carolina, and directly between Charlotte, North Carolina and Atlanta, Georgia and their international airports. The community traditionally has been in the top few on a state-wide basis for economic expansion. In 2013, Spartanburg County had new capital investments of over $112 million creating 1,211 new jobs. The prior year, Spartanburg experienced $1,027 million in capital investments and 1,178 created jobs. Spartanburg is the largest city in and the county seat of Spartanburg County and is the fourth largest city (by urban population) in the state of South Carolina. Spartanburg had a municipal population of 37,013 and an urban population of 180,786 at the 2010 census.

Nestled in the foothills of the majestic Blue Ridge Mountains, Seneca is home to residential and commercial properties listed on the National Register of Historic Places. Favorably positioned between Atlanta, Georgia, and Greenville, South Carolina, just minutes away from Clemson University, Oconee County has gained national acclaim for its natural beauty, quaint towns, antique shopping and as a favorite destination for history buffs and outdoor enthusiasts alike. As of the census of 2010, there were 7,652 people, 3,286 households, and 2,096 families residing in the city of Seneca.

Anderson is the smallest of the three primary cities (Greenville, Spartanburg and Anderson) that make up the Upstate region and is nicknamed "The Electric City." Anderson's spirit and quality of life has earned national recognition as Anderson County was named an "All-America City" in 2000. Anderson is the home of Anderson University, a selective private comprehensive university of approximately 3,000 undergraduate and graduate students. The population was 26,686 at the 2010 census, and the city was the center of an urbanized area of 75,702.

North Carolina

Asheville, North Carolina is the county seat of Buncombe County, North Carolina. Asheville is situated in the Blue Ridge Mountains at the confluence of the Swannanoa River and French Broad River and is known for its natural beauty and scenic surroundings. The nearby Great Smoky Mountains National Park and Blue Ridge Parkway are among the more visited parks in the United States. Due to its scenic location and diverse cultural and historical

offerings, the Asheville metropolitan area has become a popular destination for tourists, attracting approximately nine million visitors annually, with a direct economic impact of approximately $1.5 billion to the local economy. Originally established as a mountain retreat, Asheville now stands as a hub for technology, business innovation and growth, making it an attractive destination for corporate relocation.

Hendersonville, North Carolina is the county seat of Henderson County, North Carolina. Hendersonville is located just 22 miles south of Asheville and is also situated in the Blue Ridge Mountains. According to 2010 census data, the population of the city of Hendersonville was 13,137 and Henderson County was 106,744. Traditionally known as the "City of Four Seasons", the town has a well-preserved main street and adjoining downtown areas. The area boasts a thriving agricultural economic base, growing industry, and is home to the North Carolina Apple Festival.

Charlotte is the largest city in North Carolina and is within one of the fastest growing metropolitan statistical areas ("MSAs") in the Southeast. The city is also considered one of the major banking centers in the country. The Charlotte-Concord-Gastonia MSA is the 23rd largest MSA in the nation. Mecklenburg County alone, where Charlotte is located, has grown more than 7.8% since 2010 and has a population of approximately 991,000. It is surrounded by Cabarrus, Iredell and Catawba Counties. In addition to being one of the largest banking centers in the United States, the Charlotte metro-area is the headquarters of five Fortune 500 companies. Charlotte also has over 240 companies directly tied to the energy sector, a growing source of jobs in the area.

Competition. Carolina Alliance's business is highly competitive. It competes as a financial intermediary with other commercial banks, savings banks, credit unions, finance companies, and money market mutual funds operating in the South Carolina Upstate and Western portion of North Carolina areas and surrounding communities. Many of these institutions have substantially greater resources and lending limits than Carolina Alliance has, and many of these competitors offer services, including extensive and established branch networks and trust services that Carolina Alliance does not provide. Carolina Alliance's competitors include large national, super-regional, and regional banks like Wells Fargo, Bank of America, BB&T, and SunTrust and more established community banks, like South State Bank, HomeTrust Bank and The Palmetto Bank. Nevertheless, Carolina Alliance believes that its management team, focus on relationship banking, and the economic and demographic dynamics of its service area position it to expand its share of the area's deposits.

Business Strategy

Management Philosophy. Carolina Alliance is a primarily locally-owned and exclusively locally operated bank focused on serving consumers and small-to medium-sized businesses and professional concerns. A primary reason for Carolina Alliance's efforts in expanding the bank lies in its belief that a community-based bank, with a personal focus, can better identify and serve local relationship banking needs than can a branch or subsidiary of larger outside banking organizations. Carolina Alliance has a highly visible and knowledgeable board of directors. Carolina Alliance's directors are professionally diverse, provide extensive social and civic ties in the bank's markets, and are well-respected in the community, factors which Carolina Alliance believes create additional business opportunities for the bank.

Operating Strategy. Carolina Alliance has achieved the level of prompt, responsive service that Carolina Alliance believes attracts customers and further enhances its image as a locally-owned bank with a focus on personalized service, by using the following business strategies:

- *Experienced Senior Management*. John S. Poole leads the management team as the Chief Executive Officer of Carolina Alliance. Mr. Poole is a seasoned banker with more than 36 years of banking experience, approximately 29 of which have been in the Spartanburg County market. Prior to joining Carolina Alliance, Mr. Poole was the Upstate Regional Executive for the National Bank of South Carolina (NBSC), which purchased Carolina Southern Bank, a Spartanburg community bank, in 2001, where Mr. Poole had served as president since 1992.

  John D. Kimberly is the President of Carolina Alliance. Mr. Kimberly joined Carolina Alliance in 2014 following Carolina Alliance's merger with Forest Commercial Bank. Mr. Kimberly previously served as the President and Chief Executive Officer of Forest Commercial Bank from 2007 until the consummation of the merger with Carolina Alliance in 2014. Prior to 2007, Mr. Kimberly was Market President in

western North Carolina for SunTrust Bank. Mr. Kimberly has 29 years of banking experience.

R. Lamar Simpson is the Chief Financial Officer and Chief Operating Officer of Carolina Alliance. Mr. Simpson is a CPA and has more than 33 years of accounting and financial management experience. He has spent eight years as chief financial officer and corporate secretary of publicly traded community financial institutions including from 1996 to 2001 with First Federal Bank, a savings bank which was headquartered in Spartanburg, and from 2002 to 2005 with New Commerce Bank, a community bank which was located in Greenville, South Carolina. Additionally, he has 13 years of public accounting experience which includes service to numerous community financial institutions in South Carolina and North Carolina.

Our senior management team is comprised of veteran bankers who have lengthy banking careers. Our senior lenders have decades of experience in the markets they serve.

- *Community-Oriented Board of Directors.* The Carolina Alliance management team operates under the direction of its board of directors. As described in the Management section beginning on page 134, most of Carolina Alliance's directors are longtime residents and business persons and professionals in its service area with significant community involvement. These directors are dedicated to the success of Carolina Alliance and play an important part in marketing Carolina Alliance in the community.

- *Local Services and Decision-Making*. Carolina Alliance believes its customers enjoy a consistent and professional banking environment with local decision-making and personal access to bank management and associates who understand their financial needs. Carolina Alliance will seek to continue to be identified as a community bank that cares about its customers. To this end, Carolina Alliance focuses on personalized customer service and responsiveness in making credit decisions. Carolina Alliance believes its bankers' market knowledge positively impacts the efficiency and soundness of the credit process. Carolina Alliance believes this responsiveness is a competitive advantage for the bank.

- *Focus on Small- to Medium-Sized Commercial Market Sector.* Although size gives larger banks advantages in competing for business from large corporations, including higher lending limits and the ability to offer services in other areas of South Carolina and North Carolina, Carolina Alliance believes that there is a void in the community banking market in the Upstate and Western North Carolina, and that Carolina Alliance can continue to successfully fill this void. Although Carolina Alliance does not compete with large institutions for the primary banking relationships of large corporations, it competes for niches in this business arena and for the consumer business of their employees. Carolina Alliance also focuses on small- to medium-sized businesses, their executives, and their employees. This includes retail, service, manufacturing, industrial, and professional businesses with annual revenues of generally less than $20 million. Carolina Alliance believes that these organizations desire a consistent and personal banking relationship, and it intends to continue to attract these types of businesses based on relationships and contacts which its directors and management have inside and outside its core service area.

- *Convenient Banking Office and Branches.* Carolina Alliance has highly visible, accessible and convenient banking offices. The main Spartanburg office is in close proximity to a high concentration of commercial business and residential areas, and is centrally located in downtown Spartanburg. Carolina Alliance's Asheville office is located at 11127 Hendersonville Road in South Asheville. The Hendersonville, North Carolina office is located on Main Street in a historic structure with excellent visibility. The Seneca, South Carolina office is located just off of Highway 123, which is the primary thoroughfare in the market. The Anderson, South Carolina office is located just off of the Clemson Boulevard, which has become the primary retail sector in Anderson.

- Carolina Alliance also offers vehicle and equipment leasing from offices located in Charlotte, North Carolina and Spartanburg, South Carolina.

Lending Activities

General. Carolina Alliance offers a range of lending services, including real estate, commercial, and consumer loans to individuals, professionals, and small- to medium-sized businesses that are located in or conduct a substantial portion of their business in its market area. Carolina Alliance competes for these loans with competitors who are well-established in its service area and have greater resources and lending limits. As a result, Carolina Alliance sometimes charges lower interest rates to attract or retain borrowers.

The well-established banks in Carolina Alliance's service area make proportionately more loans to medium- to large-sized businesses than Carolina Alliance does. Many of Carolina Alliance's commercial loans are made to small- to medium-sized businesses which may be less able to withstand changes in competitive, economic, and financial conditions than larger borrowers.

Loan Approval and Review. Carolina Alliance's loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds that individual officer's lending authority, the loan request is considered and approved by an officer or officers with a higher lending limit or by the board of directors' loan committee. Any loan exceeding the committee's approval authority must be approved by the board of directors. Carolina Alliance does not make loans to any director of Carolina Alliance unless the loan is pre-approved by the disinterested members of the board of directors and is made on terms not more favorable to the person than would be available to a person not affiliated with Carolina Alliance. Carolina Alliance sells in the secondary market long-term residential mortgage loans that it originates.

Loan Distribution. Carolina Alliance's loan distribution as of December 31, 2014 is detailed under "Loans" in the Balance Sheet Review section of "Management's Discussion and Analysis of Financial Condition and Results of Operations". Carolina Alliance's loan distributions will depend on its customers' requirements and its planned credit risk profile and, therefore, will vary over time.

Allowance for Loan Losses. Carolina Alliance has established an allowance for loan losses through a provision for loan loss charged to expenses on its statement of income. The allowance for loan loss represents the amount which management believes is adequate to absorb probable losses on existing loans that may become uncollectible. The bank's judgment as to the adequacy of its allowance for loan losses at any point in time is based on a number of assumptions which Carolina Alliance believes to be reasonable based on facts existing at the time, but which may or may not prove to be accurate. Carolina Alliance's determination of the allowance for loan losses is based on evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrowers' ability to repay, the amount and quality of collateral securing the loans, its historical loan loss experience, and a review of specific problem loans. Carolina Alliance also considers subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of loans, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons. While management uses the best information available to make evaluations, future adjustments may be necessary if economic and other conditions differ substantially from the assumptions used.

Lending Limits. Carolina Alliance's lending activities are subject to a variety of lending limits imposed by federal law. In general, the bank is subject to a legal limit on loans to a single borrower equal to 15% of Carolina Alliance's capital and unimpaired surplus. Different limits apply based on the type of loan or the nature of the borrower, including the borrower's relationship to Carolina Alliance. These limits increase or decrease as Carolina Alliance's capital increases or decreases. The bank must sell participations in its loans to other financial institutions to meet all of the lending needs of loan customers requiring aggregate extensions of credit above these limits.

Credit Risk. The principal credit risk associated with each category of loans is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions and the strength of the manufacturing, services, and retail market segments. General economic factors affecting a borrower's ability to repay include interest, inflation, employment rates, and the strength of the local and national economy, as well as other factors affecting a borrower's customers, suppliers, and employees.

Real Estate Loans. Loans secured by first or second mortgages on real estate make up approximately 80% of Carolina Alliance's loan portfolio. These loans generally fall into one of two categories: commercial real estate loans or construction and development loans. Carolina Alliance also makes residential real estate loans secured by first or second mortgages on real estate. Each of these categories is discussed in more detail below, including their specific risks. Interest rates for all categories may be fixed or adjustable, and are usually fixed for shorter-term loans. The bank generally charges a fee for each loan.

Real estate loans are subject to the same general risks as other loans. Real estate loans also are sensitive to fluctuations in the value of the real estate securing the loan. Carolina Alliance requires a valid mortgage deed of trust lien on all real property loans along with a title insurance policy which insures the validity and priority of the lien for loans equal to or in excess of $100,000. An attorney's title opinion letter is required for loans less than $100,000. Carolina Alliance also requires borrowers to obtain hazard insurance policies and flood insurance, if applicable. Additionally, certain types of real estate loans have specific risk characteristics that vary according to the collateral type securing the loan and the terms and repayment sources for the loan.

Following are additional details about Carolina Alliance's real estate lending activities:

- *Commercial Real Estate Loans*. Carolina Alliance's commercial loan portfolio includes loans made for a variety of purposes. The bank makes working capital loans for businesses secured by real estate, loans to purchase or refinance owner-occupied commercial/industrial real estate, loans to finance commercial office and retail rental property and for other purposes. Commercial real estate loans generally have terms of 7 years or less, although payments may be structured on a longer amortization basis. Inherent in commercial real estate loans' credit risk is the risk that the primary source of repayment, the cash flows from an operating business or commercial real estate entity, will be insufficient to service the debt. If a real estate loan is in default, Carolina Alliance also runs the risk that the value of a commercial real estate loan's secured real estate will decrease, and thereby be insufficient to satisfy the loan. To mitigate these risks, Carolina Alliance evaluates each borrower on an individual basis and attempts to determine its business risks and credit profile. The bank attempts to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied properties where the loan-to-value ratio is established by independent appraisals. Carolina Alliance typically reviews the personal financial statements of the principal owners and requires their personal guarantees. These reviews often reveal secondary sources of payment and liquidity to support a loan request.

- *Construction and Development Real Estate Loans.* Carolina Alliance offers adjustable and fixed rate residential and commercial construction loans to owners, to builders and developers on a selected basis and directly to consumers who have a contract with a builder for the construction of their own home. The term of construction loans generally are limited to 12 to 18 months, and development loans generally will not exceed 36 months with a scheduled annual principal reduction, although payments may be structured on a longer amortization basis. These loans require payment in full upon the sale of the property. Construction and development loans generally carry a higher degree of risk than long term financing of existing properties. Repayment usually depends on the ultimate completion of the project within cost estimates and on the sale of the property. Specific risks include:

    - cost overruns;
    - mismanaged construction;
    - inferior or improper construction techniques;
    - economic changes or downturns during construction;
    - a downturn in the real estate market;
    - rising interest rates which may prevent sale of the property; and
    - failure to sell completed projects in a timely manner.

Carolina Alliance attempts to reduce risk where possible by obtaining personal guarantees, by keeping the loan-to-value ratio of the completed project below specified percentages, and by ensuring committed permanent financing is in place. The bank also reduces risk by selling participations in larger loans to other institutions when possible.

- *Residential Real Estate Loans*. These loans generally have longer terms, up to 30 years. Carolina Alliance offers fixed and adjustable rate mortgages and sells most of the residential real estate loans that it generates in the secondary market soon after it originates them. The bank generally does not retain servicing rights for these loans. Inherent in residential real estate loans' credit risk is the risk that the primary source of repayment, the residential borrower, will be insufficient to service the debt. If a real estate loan is in default, Carolina Alliance also runs the risk that the value of a residential real estate loan's secured real estate will decrease and thereby be insufficient to satisfy the loan. To mitigate these risks, the bank evaluates each borrower on an individual basis and attempts to determine its credit profile. By selling these loans in the secondary market, Carolina Alliance believes it significantly reduces its exposure to credit risk because the loans will be underwritten through a third party agent without any recourse against the bank and it reduces its exposure to the interest rate risk associated with these long term loans.

Commercial Loans. Carolina Alliance makes loans for commercial purposes in various lines of business. The bank focuses its efforts generally on commercial loans of $2.5 million or less. Equipment loans are typically made for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term and secured by the financed equipment. Working capital loans typically have terms not exceeding one year and are usually secured by accounts receivable, inventory, and/or personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal is typically repaid as the assets securing the loan are converted into cash, and in other cases principal will be due at maturity. Trade letters of credit and foreign exchange will be handled through a correspondent bank as agent for Carolina Alliance. Commercial loans primarily have risk that the primary source of repayment, cash flow from the business, will be insufficient to service the debt. Often this occurs as the result of changes in local economic conditions or in the industry in which the borrower operates which impact cash flow or collateral value.

Carolina Alliance also offers small business loans utilizing government enhancements such as the Small Business Administration's ("SBA's") 7(a) program and 504 program. These loans are typically partially guaranteed by the government, which helps to reduce Carolina Alliance's risk. Government guarantees of SBA loans do not exceed 80% of the loan value and generally will be less.

Consumer Loans. Carolina Alliance makes a variety of loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. Installment loans typically carry balances of less than $50,000 and are amortized over periods up to 72 months. Consumer loans are offered on a single maturity basis where a specific source of repayment is available. Revolving loan products typically require monthly payments of interest and a portion of the principal.

Consumer loans generally are considered to have greater risk than first or second mortgages on real estate because the value of the secured property may depreciate rapidly, they often are dependent on the borrower's employment status as the sole source of repayment, and some of them are unsecured. To mitigate these risks, Carolina Alliance analyzes selective underwriting criteria for each prospective borrower, which often include the borrower's employment history, income history, credit bureau reports, or debt to income ratios. If the consumer loan is secured by property, such as an automobile loan, Carolina Alliance also attempts to offset the risk of rapid depreciation of the collateral with a shorter loan amortization period. Despite these efforts to mitigate its risks, consumer loans have a higher rate of default than real estate loans. For this reason, the bank attempts to reduce its loss exposure to these types of loans by limiting their sizes relative to other types of loans.

Carolina Alliance also offers home equity loans. Its underwriting criteria for and the risks associated with home equity loans and lines of credit generally is the same as those for first mortgage loans. Home equity lines of credit typically have terms of 15 years or less, typically carry balances less than $200,000, and typically extend up to 80% of the available equity of each property.

Credit Administration

A key to success in the business of banking is to restrict lending to those who can reasonably be expected to repay the loans in accordance with their terms. To achieve this goal, Carolina Alliance requires applicants to provide detailed information about their financial condition, their income, their credit history, and other relevant information. The bank uses a variety of methods to verify this information. Carolina Alliance's loan officers, who are experienced lenders in its market, not only review the creditworthiness of the borrower but structure the loan to fit the borrower's reasonable ability to pay. Each lending officer has a lending limit and cannot approve loans above that limit without the concurrence of one or more senior lenders. Loans above specified limits also must be approved by Carolina Alliance's board loan committee and/or board of directors. Ordinarily, Carolina Alliance does not make loans above its self-imposed limits, which is less than its legal lending limit. In order to reduce the risk of loss to Carolina Alliance, most of its loans are secured by collateral, typically local real estate. With real estate collateral, the bank also obtains appraisals of the property by professionals in whom it has confidence and who have necessary qualifications and licensure. Carolina Alliance uses loan-to-value ratios for different types of collateral of substantially less than 100% to increase the prospect of a full recovery should Carolina Alliance have to foreclose.

Relative Risks of Loans. Each category of loan has a different level of credit risk. Real estate loans generally are safer than loans secured by other assets because the value of the underlying security, real estate, generally is ascertainable and does not fluctuate to the degree of other types of collateral. Certain real estate loans are less risky than others. Residential real estate loans generally are the least risky type of real estate loan, followed by commercial real estate loans and construction and development loans. Commercial loans, which can be secured by real estate or other assets, or which can be unsecured, are generally more risky than real estate loans but less risky than consumer loans. Finally, consumer loans, which also can be secured by real estate or other assets, or which can also be unsecured, generally are considered to be the most risky of these categories of loans. Any type of loan which is unsecured is generally more risky than secured loans. These levels of risk are general in nature, and many factors including the creditworthiness of the borrower or the particular nature of the secured asset may cause any type of loan to be more or less risky than another. Additionally, these levels of risk are limited to an analysis of credit risk, and they do not take into account other risk factors associated with making loans such as the interest rate risk inherent in long-term, fixed-rate loans.

Deposit Services

Carolina Alliance offers a full range of deposit services that typically are available in most banks and savings and loan associations, including checking accounts, NOW accounts, commercial accounts, savings accounts, and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates will be tailored to the bank's principal market area at rates competitive to those offered in its market area. Carolina Alliance may obtain deposits from outside its market area on a limited basis as liquidity needs may arise. In addition, the bank offers certain retirement account services, including IRAs. Carolina Alliance solicits these accounts from individuals, businesses, and other organizations.

Deposit Distribution. Carolina Alliance's percentage distribution of its deposits as of December 31, 2014 is detailed under "Deposits" in the Balance Sheet Review section of "Management's Discussion and Analysis of Financial Condition and Results of Operations". Carolina Alliance's deposit distributions will vary over time depending on our customers' requirements and our strategies to manage deposit levels, cost of funds, and interest rate risk.

Other Banking Services

Carolina Alliance offers cashier's checks, banking by mail, direct deposit of payroll and social security checks, United States Savings Bonds, and travelers' checks. The bank is associated with the STAR® and Cirrus® ATM networks used by its customers throughout the country. Carolina Alliance believes that by being associated with a shared network of ATMs, it is better able to serve its customers and is better able to attract customers who are accustomed to the convenience of using ATMs. Carolina Alliance began offering these services shortly after opening the bank. The bank also offers debit card and credit card services through a correspondent bank as an agent for Carolina Alliance. The bank also offers other bank services, including lines of credit, 24-hour telephone banking, and mobile online banking.

Carolina Alliance offers products and services via a traditional branch network, telephone banking, ATM network, and internet banking and does not anticipate the need for any other distribution channels in the foreseeable future.

Employees

Carolina Alliance has approximately 79 full-time employees.

Properties

Carolina Alliance currently operates out of five full-service banking offices, one loan production office and two leasing offices as set forth below:

Office Location	Approximate Square Footage	Year Established
Full-Service Offices:		
200 South Church Street, Spartanburg, SC 29306	25,000	2007
115 Broadbent Way, Unit 8, Anderson, SC 29625	3,000	2014
135 Eagles Nest Drive, Suite K, Seneca, SC 29678	1,000	2014
1127 Hendersonville Road, Asheville, NC 28803	12,000	2014
218 North Main Street, Hendersonville, NC 28792	2,000	2014
Loan Production Office:		
2333 Randolph Road, Suite 115, Charlotte, NC 28207	2,000	2012
Leasing Offices:		
125 Venture Boulevard, Suite A, Spartanburg, SC 29306	10,000	2014
2333 Randolph Road, Suite 115, Charlotte, NC 28207	2,000	2012

Legal Proceedings

Carolina Alliance is not aware of any threatened or pending legal proceedings against the bank.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with "Selected Financial Information of Carolina Alliance" and Carolina Alliance's financial statements and notes included in this joint proxy statement/offering circular. The discussion in this joint proxy statement/offering circular contains forward-looking statements that involve risks and uncertainties, such as Carolina Alliance's plans, objectives, expectations and intentions. The cautionary statements made in this joint proxy statement/offering circular should be read as applying to all related forward-looking statements wherever they appear in this joint proxy statement/offering circular. Carolina Alliance's actual results could differ materially from those discussed in this joint proxy statement/offering circular. As used in the following discussion and analysis, the terms "we," "our," and "us" refer to Carolina Alliance Bank.

OVERVIEW

We are a state-chartered commercial banking institution which was incorporated under the laws of South Carolina in January 2007. Our deposits are insured by the FDIC up to the maximum amount permitted for all banks. We conduct a general banking business in the upstate region of South Carolina and western North Carolina. We currently have five banking offices located in Spartanburg, Anderson, and Seneca, South Carolina and Asheville and Hendersonville, North Carolina as well as loan and lease production offices in Spartanburg, South Carolina and Charlotte, North Carolina. We provide banking services to individuals and businesses, including accepting demand and time deposits and providing consumer loans and commercial loans and leases.

The following table sets forth selected measures of our financial position or performance for the dates or periods indicated.

	As of or for the Years Ended December 31,	
	2014[2]	**2013**
Total revenue[1]	**$ 20,413,970**	$ 9,164,849
Net income	**6,104,900**	1,082,793
Total assets	**417,799,499**	247,384,613
Total loans and finance leases	**330,819,139**	182,845,748
Total deposits	**338,391,498**	203,499,827

(1) Total revenue equals net interest income plus non-interest income.

(2) This table reflects the dramatic impact of merger activity for the year ended December 31, 2014, as discussed throughout this discussion and analysis of our financial condition and results of operations. For more details on these business combinations, see Note 2 of the Notes to the Consolidated Financial Statements found in Appendix E.

Like most financial institutions, we derive the majority of our income from interest we receive on our interest-earning assets, such as loans and investments. Our primary source of funds for making these loans and investments is deposits, on which we pay interest. Consequently, one of the key measures of our success is the amount of net interest income, or the difference between the income on our average interest-earning assets and the expense on our average interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on these average interest-earning assets and the rate we pay on our average interest-bearing liabilities, which is called net interest spread.

There are risks inherent in all loans, and we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. This allowance is maintained by charging a provision for loan losses against operating earnings. A detailed discussion of this process, as well as several tables describing the allowance for loan losses, is included below.

In addition to earning interest on our loans and investments, we earn income through other sources, such as fees and other charges to our banking and leasing customers and income from providing wealth management services, as well as net gains or losses realized from the sale of assets. The various components of non-interest income, as well as non-interest expense, are described in this section.

SIGNIFICANT ACCOUNTING POLICIES

Organization – We were incorporated and began operations in January 2007 and provide a broad array of commercial banking services to our customers. We are subject to regulation of the South Carolina State Board of Financial Institutions and the FDIC.

On April 5, 2014, we merged with Forest Commercial Bank ("Forest Commercial"), with our organization as the surviving legal entity. See Note 2 of the Notes to the Consolidated Financial Statements found in Appendix E for complete details on this transaction.

On August 4, 2014, we acquired the commercial leasing operations of Dave McBride Leasing, LLC. See Note 2 of the Notes to the Consolidated Financial Statements for complete details on this transaction.

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of our consolidated financial statements.

Our significant accounting policies are described in more detail in Note 1 of the Notes to the Consolidated Financial Statements found in Appendix E.

Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions used are based on historical experience and other factors, which we believe to be reasonable under the circumstances and which have been reasonably consistent with prior results. Because of the nature of the judgments and assumptions made, actual results could differ from these estimates, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of other real estate owned, and the valuation of deferred tax assets.

Business Combinations and Method of Accounting for Loans Acquired - Acquisitions are accounted for under the acquisition method of accounting. A business combination occurs when we acquire net assets that constitute a business, or acquire equity interests in one or more other entities that are businesses and obtain control over those entities. Business combinations are effected through the transfer of consideration consisting of cash and/or common stock. The assets and liabilities of the acquired entity are recorded at their respective fair values as of the acquisition date. When the fair value of the assets purchased exceeds the fair value of liabilities assumed, it results in a "bargain purchase gain." If the consideration given exceeds the fair value of the net assets received, goodwill is recognized.

Determining the fair value of assets and liabilities, especially the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the acquisition date, as relevant information becomes available. The results of operations of acquired entities are included in the consolidated results from the acquisition date, and prior periods are not restated. No allowance for loan and lease losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding future credit losses. The fair value estimates associated with the acquired loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Loans, Interest, and Fee Income on Loans and Leases - Loans and finance leases are stated at the principal balance outstanding and reduced by the allowance for loan and lease losses. Loan and lease origination fees and certain direct loan origination costs are deferred and the net amount is accreted or amortized as an adjustment of the related yield over the contractual life of the loan or lease. Loan and lease origination fees and costs are netted and the net amount either reduces or increases net loans and leases outstanding. Interest income is recognized over the term of the loan or lease based on the contractual interest rate and the principal balance outstanding.

Purchased Credit-Impaired ("PCI") Loans - Purchased loans acquired in a business combination, which include loans purchased in the merger with Forest Commercial, are recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan and lease losses. PCI loans are accounted for under the "Receivables" topic of the ASC when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments. Purchased impaired loans generally meet our definition for nonaccrual status. The merger with Forest Commercial included only two PCI loans whose combined book balance totaled less than $100 thousand at December 31, 2014.

Purchased Performing Loans - We account for performing loans acquired in business combinations using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan and lease losses established at the acquisition date for purchased performing loans. A provision for loan and lease losses is recorded for any further deterioration in these loans subsequent to the acquisition.

Non-Accrual Loans - Loans generally are placed on non-accrual status when principal or interest becomes 90 days past due, or when payment in full is not anticipated. Interest payments received after a loan is placed in non-accrual status are applied as principal reductions until such time as the loan is returned to accrual status. Generally, a loan is returned to accrual status when the loan is brought current and the collectability of principal and interest is no longer in doubt.

Allowance for Loan and Lease Losses - We provide for loan and lease losses using the allowance method. Provisions for loan and lease losses are added to the allowance through charges to operating expenses. Loans and leases which are determined to be uncollectible are charged against the allowance and recoveries on loans and leases previously charged off are added to the allowance. The provision for loan and lease losses charged to operations is an amount sufficient to bring the allowance for loan and lease losses to an estimated balance considered adequate to absorb losses inherent in the portfolio.

Our determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, historical loan and lease loss experience, and other risk factors. While we use the best information available to make evaluations, future adjustments may be necessary if economic and other conditions differ substantially from the assumptions used. The allowance for loan and lease losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

A loan is considered to be impaired when full payment according to the terms of the loan agreement is not probable or when the terms of a loan are modified in a troubled debt restructuring ("TDR"). The fair value of impaired loans may be determined based upon the present value of expected cash flows discounted at the loan's effective interest rate, the market price of the loan, if available, or, if the loan is collateral-dependent, the value of the underlying collateral, less estimated selling costs when foreclosure is imminent.

The treatment of the loan impairment is based on the status of the borrower and the underlying collateral. In general, the impairment is charged-off for collateral-dependent loans and consumer loans. For all other loans, a portion of the allowance for loan and lease losses is allocated specifically to each impaired loan. When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once payments equal to the outstanding principal balance have been received, further cash receipts are applied to interest income, to the extent that any interest has been foregone.

Other Real Estate Owned and Repossessed Assets **-** Other real estate owned is comprised of real property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Repossessed assets include personal property acquired through conveyance in satisfaction of debts. Other real estate owned and repossessed assets are recorded at the lower of the recorded investment in the loan at the time of acquisition or the fair value of the underlying property collateral, less estimated selling costs. Any write-down in the carrying value of a property at the time of acquisition is charged to the allowance for loan and lease losses. Any subsequent write-downs to reflect current fair market value, as well as gains and losses on disposition and revenues and expenses incurred in maintaining such properties, are treated as period costs. Other real estate owned and repossessed assets are included in "Other assets" in the balance sheet and balances are summarized in Note 4 of the Notes to the Consolidated Financial Statements found in Appendix E.

Intangible Assets **-** Intangible assets are substantially all comprised of the core deposit intangible that resulted from the merger with Forest Commercial. Core deposit intangibles represent the value of long-term deposit relationships acquired in a business combination. The core deposit intangible is being amortized over seven years using the 150% declining balance method. This amortization method is used to match the recognition of the cost of the asset to the estimated lives of the underlying deposit relationships. These estimated useful lives are periodically reviewed for reasonableness.

Income Taxes **-** We utilize the asset and liability approach to account for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying values and the tax bases of assets and liabilities, as well as net operating loss carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which we expect those temporary differences to be realized or settled. A current tax asset or liability is recognized for taxes that are presently payable.

We have analyzed our filing positions in the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. We believe that income tax filing positions taken or expected to be taken in our tax returns will more likely than not be sustained upon audit by the taxing authorities and do not anticipate any adjustments that will result in a material adverse impact on our financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded.

OFF-BALANCE SHEET RISK

In the ordinary course of business, we are a party to various contractual commitments not reflected on our balance sheet. These instruments represent unfunded commitments, not outstanding balances. Therefore, the risk associated with these financial instruments is referred to as "off-balance sheet risk." Financial instruments with off-balance sheet risk that we have outstanding consist of (i) commitments to extend credit and (ii) standby letters of credit. Both involve elements of credit and interest rate risk not reflected on the balance sheet. We use the same credit and collateral policies in making these commitments as we do for on-balance sheet instruments.

Commitments to extend credit are legally binding agreements to lend money to a customer as long as there is no violation of any material condition established in the contract. All of our commitments have predetermined interest rates and fixed expiration dates. At December 31, 2014, our commitments to extend credit totaled approximately $74.1 million and all represented the unfunded portion of equity, working capital and general lines of credit. The unfunded portion had the same contractual terms reflected in the original note and security agreement. Approximately 49% of our total commitments had expiration dates of one year or less, while those expiring after one year through five years accounted for approximately 7% of the total. Those expiring after five years approximated 44% of the total. The majority of the commitments expiring after five years represented available balances on equity lines of credit.

Our outstanding standby letters of credit totaled $932,000 at December 31, 2014 with expiration dates of one year or less. These letters of credit are assurances to third parties that they will not incur a loss if our customer fails to meet its contractual obligation. Past experience indicates that many of these commitments to extend credit will expire unused. However, as described in the section "Liquidity and Capital Resources," we believe that we have adequate sources of liquidity to meet these obligations should the need arise. We are not involved in any other off-balance sheet contractual relationships or transactions, which could result in liquidity needs or impact earnings significantly, nor do we have unconsolidated related entities.

RESULTS OF OPERATIONS

Year Ended December 31, 2014 as Compared to Year Ended December 31, 2013

Overview

Net income available to common shareholders for the year ended December 31, 2014 was $6.1 million, or $1.45 per diluted share, compared to $1.0 million, or $0.37 per diluted share, for the year ended December 31, 2013. This was a $5.1 million increase in the net income available to common shareholders and a $1.08 increase in the diluted earnings per share over the prior year. This increase in our earnings resulted primarily from the increase in earning assets from the merger with Forest Commercial and the impact of merger-related accounting, particularly the non-operating after-tax bargain purchase gain of $3.8 million related to mark-to-market adjustments to the Forest Commercial balance sheet as of the merger date of April 5, 2014. Partially offsetting these increases were increased operating expenses from the addition of the Forest Commercial operations and non-operating after-tax expenses of approximately $0.7 million for merger costs and start-up costs associated with our branches in Seneca and Anderson, South Carolina, both of which opened for business in 2014.

Net income for the year ended December 31, 2014 was significantly impacted by the overall growth of the balance sheet resulting from the April 2014 merger with Forest Commercial as well as the August 2014 acquisition of Dave McBride Leasing. Specifically, gross loans and leases increased by $152.4 million to $335.2 million on December 31, 2014 from $182.8 million on December 31, 2013. Of the increase, $121.7 million is attributable to Forest Commercial loans and leases added as of the merger date. Total assets increased by $170.6 million to $418.0 million at December 31, 2014 from $247.4 million at December 31, 2013. Forest Commercial's assets totaled $156.2 million as of the merger date. Total deposits increased to $338.4 million on December 31, 2014 from $203.5 million on December 31, 2013, an increase of $134.9 million. Forest Commercial's deposits totaled $129.0 million as of the merger date. Total shareholders' equity was $52.3 million at December 31, 2014, or 12.5% of total assets, compared to $32.0 million, or 12.9% of total assets, at December 31, 2013. For more details on these business combinations, see Note 2 of the Notes to the Consolidated Financial Statements found in Appendix E.

Net Interest Income

The largest component of our income is net interest income, the difference between the income earned on assets and the interest expense on deposits and borrowings used to support such assets. Net interest margin is determined by dividing the annual net interest income by average earning assets.

For the year ended December 31, 2014, net interest income was $14.7 million, an increase from $8.8 million earned for the year ended December 31, 2013. The increase in 2014 was attributable principally to an increase in the volume of loans and leases, primarily due to the merger activity in 2014. In addition, the volume of and rates earned on investment securities increased while the volume of and rates paid on our interest-bearing liabilities decreased overall. Net interest margin for 2014 was 4.17% compared to 3.79% in 2013.

See further details of the changes in and components of net interest income following under the headings: "Interest Income," "Interest Expense," "Average Balances, Yields, and Rates," and "Rate/Volume Analysis."

Interest Income

Interest income totaled $15.7 million for the year ended December 31, 2014 compared to $9.6 million in 2013, an increase of 63%. This increase resulted from the net effect of increased yield on earning assets and increased outstanding balances. Average earning assets were $352.3 million for the year ended December 31, 2014, with an

average yield of 4.46%. For the year ended December 31, 2013, average earning assets and average yield were $231.9 million and 4.15%, respectively.

Loans and finance leases interest income for the year ended December 31, 2014 totaled $14.3 million, compared to $8.6 million in 2013. The average yield on loans and finance leases was 5.07% in 2014, compared to 4.92% in 2013. The increase in volume over 2013 created the most significant increase to income and is primarily the result of an increase in loans and finances leases from merger activity during 2014. Average balances of loans and finance leases increased to $282.8 million during the year ended December 31, 2014, an increase of $108.2 million over the average of $174.6 million during the year ended December 31, 2013. The increase in yield was positively impacted by the accretion of acquisition accounting fair market value adjustments on the acquired loan portfolio.

Interest earned on investment securities amounted to $1.3 million in 2014 as compared to $983.7 thousand earned in 2013, an increase of $331.0 thousand. The increase resulted from an increase in the amount of investment securities held on average during 2014 as well as an increase in their average yield. The average balance of investment securities was $58.6 million in 2014, an increase of $12.5 million from the average balance of $46.1 million in 2013. Investment securities yielded 2.24% during the year ended December 31, 2014, compared to 2.14% during the previous year. This difference reflects the overall improvement in current market rates on investment securities.

Interest Expense

Interest expense totaled $1.0 million for the year ended December 31, 2014 compared to $820.9 thousand in 2013. This increase resulted from the net effect of a dramatic increase in the average outstanding balances of interest-bearing liabilities with slightly increased average costs. Average interest-bearing liabilities were $276.7 million with an average cost of 0.38% in 2014, compared to $185.7 million and 0.44%, respectively, in 2013. Interest expense on deposits totaled $939.6 thousand for the year ended December 31, 2014 compared to $732.5 thousand in 2013. Average interest-bearing deposits were $260.6 million with an average cost of 0.36% in 2014, compared to $175.3 million and 0.42%, respectively, in 2013. The decrease in cost resulted from relatively flat rates paid on most deposit products in addition to the maturity during 2014 of time deposits with higher than current market rates.

Average Balances, Yields and Rates

The following table presents average earning assets and interest-bearing liabilities, net interest income and margin, and weighted average yields and rates on earning assets and interest-bearing liabilities for the years ended December 31, 2014 and 2013. Yields and rates are derived by dividing income or expense by the average balance of the corresponding asset or liability.

	For the Years Ended December 31,					
	2014			2013		
	Average Balance	Income/ Expense	Yield/ Rate[1]	Average Balance	Income/ Expense	Yield/ Rate[1]
Interest Earning Assets:						
Loans and finance leases[2]	**$282,833,944**	**$14,334,373**	**5.07%**	$174,581,656	$ 8,581,012	4.92%
Investment securities	**58,584,695**	**1,314,717**	**2.24%**	46,070,760	983,687	2.14%
Federal funds sold and other	**10,862,818**	**69,013**	**0.64%**	11,197,597	53,346	0.48%
Total interest earning assets	**352,281,457**	**15,718,103**	**4.46%**	231,850,013	9,618,045	4.15%
Non-interest Earning Assets	**17,302,031**			12,371,158		
Total assets	**$369,583,488**			$244,221,171		
Interest Bearing Liabilities:						
Demand, interest bearing	**$ 24,283,587**	**35,256**	**0.15%**	$ 17,837,791	25,468	0.14%
Money market and savings	**149,206,278**	**474,090**	**0.32%**	98,963,733	350,896	0.36%
Time deposits	**87,093,831**	**430,224**	**0.49%**	58,503,834	356,132	0.61%
Borrowed funds	**16,122,939**	**102,917**	**0.64%**	10,374,573	88,442	0.85%
Total interest bearing liabilities	**276,706,635**	**1,042,487**	**0.38%**	185,679,931	820,938	0.44%
Non-interest Bearing Liabilities:						
Non-interest bearing deposits	**44,585,350**			25,363,434		
Other liabilities	**1,697,202**			1,147,543		
Shareholders' Equity	**46,594,301**			32,030,263		
Total liabilities and shareholders' equity	**$369,583,488**			$244,221,171		
Net interest spread			**4.10%**			3.70%
Net interest income/margin		**$14,675,616**	**4.17%**		$ 8,797,107	3.79%
Ratio of interest earning assets to interest bearing liabilities	**127.3%**			124.9%		

[1] Average rates are calculated before the benefit of tax-exempt interest. Differences between actual yields and tax equivalent yields are not material.

[2] Nonaccrual loans are included in average balances.

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing rates and changing volume. The following table shows the effect which varying levels of earning assets and interest-bearing liabilities and associated yields and rates had on net interest income for the years ended December 31, 2014 and 2013. Changes in rate/volume were allocated to both in their proportions to the absolute value of each.

	Increase (Decrease) in Net Interest Income for the Years Ended December 31,					
	2014 vs. 2013			2013 vs. 2012		
	Due to Change in		Total	Due to Change in		Total
	Volume	Rate	Change	Volume	Rate	Change
Interest Earning Assets:						
Loans and finance leases	**$5,478,438**	**$274,923**	**$ 5,753,361**	$176,245	$(337,683)	$(161,438)
Investment securities	**278,669**	**52,361**	**331,030**	(67,593)	(156,848)	(224,441)
Federal funds sold and other	**(1,542)**	**17,208**	**15,666**	(2,642)	1,621	(1,021)
Total	**5,755,565**	**344,492**	**6,100,057**	106,010	(492,910)	(386,900)
Interest Bearing Liabilities:						
Demand, interest bearing	**9,352**	**436**	**9,788**	2,687	(1,854)	833
Money market and savings	**154,834**	**(31,639)**	**123,195**	42,460	(113,901)	(71,441)
Time deposits	**120,591**	**(46,499)**	**74,092**	(115,123)	(170,615)	(285,738)
Borrowed funds	**26,495**	**(12,019)**	**14,476**	17,428	(52,571)	(35,143)
Total	**311,272**	**(89,721)**	**221,551**	(52,548)	(338,941)	(391,489)
Change in net interest income	**$5,444,293**	**$434,213**	**$ 5,878,506**	$158,558	$(153,969)	$ 4,589

Provision for Loan Losses

The provision for loan losses is the charge to operating earnings that we believe to be necessary to maintain the allowance for loan losses at an adequate level. The amount charged to the provision is based on a review of past-due loans and delinquency trends, actual losses, classified and criticized loans, loan portfolio growth, concentrations of credit, economic conditions, historical charge-off activity and internal credit risk ratings. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions as more information becomes available or economic conditions change.

At the end of each quarter or more often, if necessary, we analyze the collectability of our loans and adjust the loan loss allowance to an appropriate level. The allowance for loan losses covers estimated credit losses on individually evaluated loans that are determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan portfolio.

Loan charge-offs and recoveries are charged or credited directly to the allowance as applicable. The provision for loan and lease losses was $1,098,129, and $475,000 for the years ended December 31, 2014 and 2013, respectively. See “Balance Sheet Review –Allowance for Loan Losses.”

Non-Interest Income

Non-interest income for the year ended December 31, 2014 was $5.7 million, an increase of $5.4 million, or 1,460%, compared to $367.7 thousand in 2013. The largest components of this increase were the bargain purchase gain of $3.8 million and operating lease income of $1.1 million due to the merger with Forest Commercial and the acquisition of David McBride Leasing. In addition, we had a gain on sale of Small Business Administration ("SBA") loans of $120.5 thousand. Non-interest income also included a significant decrease in net losses on other real estate owned from losses of $123.0 thousand for 2013 to a $15.3 thousand gain for 2014. Components of non-interest income are shown in the following table.

	For the Years Ended December 31,	
	2014	**2013**
Bargain purchase gain	**$ 3,817,576**	$ -
Operating lease income	**1,117,046**	-
Service fees on deposit accounts	**289,106**	238,247
Mortgage brokerage income	**121,894**	60,677
Other	**241,131**	185,071
Gain on sale of SBA loan	**120,515**	-
Gain on sale of investment securities	**15,776**	6,619
Gain (loss) on other real estate owned	**(5,095)**	(122,872)
Gain on sale of repossessed collateral	**20,405**	-
Total non-interest income	**$ 5,738,354**	$ 367,742

Non-Interest Expense

Non-interest expenses for the year ended December 31, 2014 was $12.1 million, compared to $6.8 million for the same period in the prior year. The following table sets forth information related to the various components of non-interest expenses for each respective period.

	For the Years Ended December 31,	
	2014	**2013**
Salaries and benefits	**$ 6,661,847**	$ 4,045,119
Occupancy, furniture and equipment	**1,011,788**	542,310
Operating lease expense	**992,192**	-
Data processing and computer network	**958,444**	581,750
Marketing	**262,732**	179,639
Printing, supplies and postage	**134,822**	90,165
Core deposit intangible amortization	**177,787**	-
Merger-related expenses	**579,720**	373,956
Other operating	**1,336,555**	1,004,715
Total non-interest expense	**$12,115,887**	$ 6,817,654

The largest individual component of the $5.3 million increase in non-interest expense was in salaries and benefits, which increased by $2.6 million, or 65%, from $4.1 million in 2013 to $6.7 million in 2014. This increase was due primarily to the increase in employees through the merger with Forest Commercial and our new branches in Seneca and Anderson, South Carolina, both of which opened for business in 2014. Operating expenses increased overall from the addition of the Forest Commercial operations and our expansion into new markets. Furthermore, 2014 reflects start-up costs associated with our branching activities as well as merger costs. The second largest increase after salaries and expenses was for operating lease expense which was $992.2 thousand for 2014 compared to $0 in 2013.

BALANCE SHEET REVIEW

December 31, 2014 as Compared to December 31, 2013

Summary

At December 31, 2014, assets totaled $417.8 million, an increase of $170.4 million, or 69%, from $247.4 million at December 31, 2013. The increase was comprised principally of an increase in loans and finance leases, and to a lesser extent to an increase in investment securities, the addition of leased assets and a core deposit intangible. Total liabilities increased by $150.1 million, or 70%, to $365.5 million at December 31, 2014 from $215.4 million at December 31, 2013. The increase in liabilities was comprised principally of an increase in deposits and FHLB advances, primarily due to merger activity, and was partially offset by decreased securities sold under agreements to repurchase.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and due from banks and federal funds sold. These are short-term, highly liquid balances that are used to fund operations, including projected funding of loans. These balances totaled $7.4 million at December 31, 2014 as compared to $6.5 million at December 31, 2013.

Investment Securities

At December 31, 2014, investment securities totaled $60.8 million and represented 15% of earning assets compared to a total of $44.5 million, which represented 19% of earning assets at December 31, 2013. We invest primarily in U.S. Government agency securities, government-sponsored agency securities, mortgage-backed securities, and collateralized mortgage obligations. All of our investment securities are classified as available for sale and are carried at estimated fair value.

Contractual maturities and yields on our investment securities at December 31, 2014 are shown on the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2014									
	Within One Year		After One but Within Five Years		After Five but Within Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. government agency and sponsored enterprises	$ 167,609	3.46%	$1,184,714	3.45%	$2,739,461	1.41%	$10,626,426	2.70%	$14,718,210	2.53%
Agency mortgage-backed securities	-	-%	14,162	4.50%	3,272,896	3.84%	17,655,398	3.26%	20,942,456	3.35%
Agency collateralized mortgage-backed securities	-	-%	83,446	4.50%	1,058,111	2.17%	12,150,228	2.61%	13,291,785	2.58%
Corporate securities	1,000,410	1.71%	-	-%	-	-%	-	-%	1,000,410	1.71%
Municipal securities	2,054,393	2.76%	6,184,688	3.39%	2,181,050	1.33%	403,582	3.63%	10,823,713	2.87%
Total	$3,222,412	2.47%	$7,467,010	3.41%	$9,251,518	2.34%	$40,835,634	2.92%	$60,776,574	2.87%

The amortized cost and fair value of our investment securities, all classified as available for sale, at December 31, 2014 and 2013 are shown in the following table.

	December 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. government agency and sponsored enterprises	**$14,784,022**	**$14,718,210**	$11,186,620	$10,595,096
Agency mortgage-backed securities	**20,493,045**	**20,942,456**	18,267,967	18,633,535
Agency collateralized mortgage-backed securities	**13,228,670**	**13,291,785**	6,335,751	6,285,622
Corporate securities	**1,000,630**	**1,000,410**	-	-
Municipal securities	**10,709,882**	**10,823,713**	9,013,883	9,033,382
Total	**$60,216,249**	**$60,776,574**	$44,804,221	$44,547,635

As a member institution, we are required to own certain stock investments in the FHLB of Atlanta. No ready market exists for this stock, and it has no quoted market value. However, redemption of the stock historically has been at par value; therefore, it is carried at cost. This stock generally is pledged against any borrowings from FHLB. This investment is shown on the balance sheet as "Other investments."

Loans

Outstanding loans represent the largest component of earning assets. At December 31, 2014, outstanding loan and finance leases, net of related allowance for loan losses, fair value adjustments and deferred fees and costs, totaled $326.9 million, an increase of $147.6 million, or 82%, over the $179.3 million reported at December 31, 2013. This increase was primarily attributable to the merger with Forest Commercial and the acquisition of David McBride Leasing during 2014. Outstanding loans and finance leases represented 84% of total earning assets at December 31, 2014 and 80% at December 31, 2013.

The following table summarizes the composition of the loan portfolio at December 31, 2014 and 2013.

	December 31, 2014		December 31, 2013	
	Amount	% of Total	Amount	% of Total
Commercial	**$ 50,570,533**	**15.1%**	$ 35,646,157	19.5%
Real estate:				
Commercial	**197,039,075**	**58.8%**	115,018,431	62.9%
Residential	**51,376,996**	**15.3%**	26,464,575	14.5%
Construction	**11,811,205**	**3.5%**	1,742,417	1.0%
Consumer	**4,326,335**	**1.3%**	3,857,454	2.1%
Finance leases	**20,031,638**	**6.0%**	-	-%
Gross loans	**335,155,782**	**100.0%**	182,729,034	100.0%
Allowance for loan losses	**(3,946,405)**		(3,515,034)	
Fair value adjustment on acquired loans and leases	**(2,613,584)**		-	
Deferred loan fees and costs, net	**(1,723,059)**		116,714	
Net loans	**$ 326,872,734**		$179,330,714	

A majority of our loans are to business owners of many types. We make commercial loans for real estate development and other business purposes required by our customer base.

Our credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial mortgage loans include loans to finance commercial real estate properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale or lease of the subject property. Commercial mortgage loans typically require a loan to value ratio of not greater than 85% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Pricing for residential mortgages and home equity loans is subject to market conditions, the applicant's qualified credit bureau score, and the collateral's loan to value ratio. Residential mortgages have amortization terms up to but not longer than 30 years and home equity loans generally have maturities up to 15 years.

Finance leases are secured by vehicles and equipment in a first lien position. Finance leases have terms generally ranging from 24 – 60 months at market interest rates for similar leases based on the borrower's financial strength and estimated residual collateral values.

Other consumer loans include installment loans, car loans, and overdraft lines of credit. The majority of these loans are secured.

Credit Quality

There are risks inherent in making loans and finance leases, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, and risks resulting from uncertainties about the future value of collateral. Our written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with additional credit department approval for the majority of new loan and finance lease balances. In addition, to address ongoing risks, we have developed policies and procedures to evaluate the overall quality of our credit portfolio and to timely identify potential problem loans and finance leases.

The accrual of interest on loans is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when we have serious doubts about further collectability of principal or interest, even though the loan is currently performing. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on non-accrual loans is typically applied against principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The following table summarizes non-performing assets.

	December 31,	
	2014	**2013**
Non-performing loans and leases:		
Past due 90 days or more and still accruing interest	**$ -**	$ -
Non-accrual	**2,374,279**	670,074
Total non-performing loans and leases (1)	**2,374,279**	670,074
Other real estate owned	**1,684,101**	1,108,731
Total non-performing assets (2)	**4,058,380**	1,778,805
Performing troubled debt restructurings (TDRs) (3)	**5,071,654**	5,015,473
Total non-performing assets and performing TDRs	**$ 9,130,034**	$ 6,794,278
Non-performing loans and leases as a percentage of gross loans and leases	**0.71%**	0.37%
Non-performing assets as a percentage of total assets	**0.97%**	0.72%
Non-performing assets and performing TDRs as a percentage of total assets	**2.19%**	2.75%
Ratio of allowance to non-performing loans at end of period	**166%**	**525%**
Allowance for loan losses as a percentage of total loans (4)	**1.19%**	1.92%

(1) Non-performing loans are comprised of (i) loans that have a non-accrual status; (ii) accruing loans that are 90 days or more past due; and (iii) non-performing TDRs.
(2) Non-performing assets are comprised of non-performing loans, other real estate owned, and repossessed assets.
(3) Performing TDRs are accruing loans that have been restructured in troubled debt restructurings and are in compliance with their modified terms.
(4) There is no allowance for loan and lease losses established at the acquisition date for purchased performing loans, which instead are recorded at fair value, including a credit discount.

While not considered non-performing, our performing troubled debt restructurings are closely monitored as they consist of loans that have been modified where the borrower is experiencing financial difficulty. Troubled debt restructurings may be deemed to have a higher risk of loss than loans which have not been restructured.

Management continues to monitor and explore potential options and remedial actions to recover our investment in non-performing loans. The non-performing loans identified above are included in the total of our classified loans, which include loans in the grade categories special mention, substandard, and doubtful. Our loan grades are described in Note 4 of the Notes to the Consolidated Financial Statements found in Appendix E. The total of classified loans at December 31, 2014 and December 31, 2013 were $14.0 million and $10.3 million, respectively.

Allowance for Loan and Lease Losses

We maintain an allowance for loan and lease losses, which we establish through charges in the form of a provision for loan and lease losses on our statement of income. We charge loan losses and credit recoveries directly to this allowance. We attempt to maintain the allowance at a level that we believe will be adequate to provide for potential losses in our loan portfolio. We consider a number of factors in determining the level of this allowance, including the total amount of outstanding loans, the amount of past due loans, historic loan loss experience, general economic conditions and the assessment of risk elements in our portfolio.

Risks within the loan and lease portfolios are analyzed on a continuous basis by management, periodically analyzed by an external independent loan review function, and also are reviewed by the audit committee. A risk system, consisting of multiple grading categories, is utilized as an analytical tool to assess risk and appropriate allowances. In addition to the risk system, we further evaluate the risk characteristics of the loan and lease portfolios under current and anticipated economic conditions and consider such factors as the financial condition of the borrower, past and expected loss experience, and other factors which we believe deserve recognition in establishing an appropriate allowance. These estimates are reviewed at least quarterly, and, as adjustments become necessary, they are recognized in the appropriate periods.

Although we attempt to maintain the allowance at an adequate level, future additions to the allowance may be required due to the growth of the loan portfolio, changes in asset quality, changes in market conditions and other factors. Additionally, various regulatory agencies periodically review the allowance for loan losses. These agencies may require additional provisions based upon their judgment about information available to them at the time of their examination. Although we use what we believe to be the best information available, the level of the allowance for loan and lease losses remains an estimate which is subject to significant judgment and short term change.

The following table sets forth a summary of the changes in the allowance for loan and lease losses for the periods ended December 31, 2014 and 2013.

	As of or for the Years Ended December 31,	
	2014	**2013**
Balance, beginning of year	**$ 3,515,034**	$ 3,082,443
Charge-offs:		
Commercial	**(15,752)**	(11,812)
Real estate:		
Commercial	**(500,743)**	(130,000)
Residential	**(184,433)**	(29,542)
Construction	**-**	-
Consumer	**-**	(34,204)
Finance leases	**-**	-
Total chargeoffs	**(700,928)**	(205,558)
Recoveries:		
Commercial	**22,461**	25,227
Real estate:		
Commercial	**2,760**	126,189
Residential	**925**	8,660
Construction	**-**	-
Consumer	**8,024**	3,073
Finance leases	**-**	-
Total recoveries	**34,170**	163,149
Provision charged to operations	**1,098,129**	475,000
Balance, end of year	**$ 3,946,405**	$ 3,515,034
Allowance for loan losses as a percentage of total loans	**1.19%**	1.92%
Net charge-offs to total loans	**0.20%**	0.02%

The following table allocates the allowance for loan and lease losses by loan category at December 31, 2014 and 2013. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	December 31, 2014		December 31, 2013	
	Amount	% of Total	Amount	% of Total
Commercial	$ 555,622	15.1%	$ 469,087	19.5%
Real estate:				
Commercial	1,884,877	58.8%	1,704,954	62.9%
Residential	575,355	15.3%	338,009	14.5%
Construction	641,372	3.5%	857,256	1.0%
Consumer	202,967	1.3%	145,728	2.1%
Finance leases	86,212	6.0%	-	0.0%
Total	$ 3,946,405	100.0%	$ 3,515,034	100.0%

The following table summarizes loan and lease maturities, by type, at December 31, 2014. The information in the table is based on the contractual maturities of individual loans and leases, including those which may be subject to renewal at their contractual maturity. Renewals of such loans and leases are subject to review and credit approval, as well as modification of terms upon their maturity. Actual repayments of loans may differ from maturities reflected in the following table, due to prime rate movement and from borrowers having the right to prepay obligations with or without prepayment penalties.

	December 31, 2014			
	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial	$ 27,322,709	$ 21,948,970	$ 1,298,854	$ 50,570,533
Real estate:				
Commercial	21,880,417	167,479,358	7,679,300	197,039,075
Residential	2,611,823	14,932,449	33,832,724	51,376,996
Construction	3,509,591	8,274,351	27,263	11,811,205
Consumer	3,298,036	948,991	79,308	4,326,335
Gross loans	58,622,576	213,584,119	42,917,449	315,124,144
Finance leases	2,301,532	17,730,106	-	20,031,638
Gross loans and finance leases	$ 60,924,108	$ 231,314,225	$ 42,917,449	335,155,782
Fair value adjustments on acquired loans and leases				(2,613,584)
Unearned income				(1,723,059)
Net loans and finance leases				$330,819,139
Loans and leases maturing after one year with:				
Fixed interest rates				$194,141,003
Floating interest rates				80,090,671
Total				$274,231,674

Deposits

Deposits are our primary source of funds for loans and investments. Total deposits were $338.4 million at December 31, 2014, an increase of $134.9 million, or 66%, from the $203.5 million reported at December 31, 2013. This increase in total deposits is primarily attributable to the merger with Forest Commercial. The following is a table of average deposits and rates by category at December 31, 2014 and 2013.

	December 31, 2014		December 31, 2013	
	Amount	Rate	Amount	Rate
Non-interest bearing deposits	**$ 44,585,350**	**-%**	$ 25,363,434	-%
Interest bearing deposits:				
Interest checking	**24,283,587**	**0.15%**	17,837,791	0.14%
Money market and savings	**149,206,278**	**0.32%**	98,963,733	0.36%
Time deposits	**87,093,831**	**0.49%**	58,503,834	0.61%
Total deposits	**$305,169,046**	**0.62%**	$200,668,792	0.73%

Core deposits, which consist of local demand deposits and time deposits of less than $250,000, provide a relatively stable funding source for our lending and investing activities. Our core deposits totaled $282.7 million, or 77% of total deposits, at December 31, 2014. Time deposit balances over $250,000 and deposits obtained from outside the market area are not considered core deposits because their retention can be expected to be heavily influenced by rates offered at renewal. At December 31, 2014, the total of deposits outside of our primary market totaled $16.8 million. Due to the developed national market for certificates of deposit, we anticipate being able to either renew or replace the deposits obtained outside of the market area when they mature; however, no assurance can be given that we will be able to replace these deposits with the same terms.

The maturity distribution of our time deposits of $100,000 or more at December 31, 2014 is shown in the following table.

	December 31, 2014
Three months or less	**$ 9,698,810**
Over three through six months	**8,753,438**
Over six through twelve months	**12,509,972**
Over twelve months	**21,426,826**
Total	**$ 52,389,046**

Other Borrowings

We maintain federal funds lines of credit with correspondent banks to meet short-term liquidity needs. As a member of the FHLB, we have access to borrowings through various FHLB programs. There were short-term borrowings of $14.6 million outstanding at December 31, 2014 and $1 million outstanding at December 31, 2013. There was also long-term borrowings of $5 million outstanding at December 31, 2014 and no long-term borrowings at December 31, 2013. Advances from the FHLB are collateralized by our investment in the common stock of the FHLB, by a specific pledge of certain investment securities and by a blanket lien on our loan portfolio. See "Liquidity and Capital Resources" for additional details of our borrowing arrangements.

The following table outlines our various sources of other borrowed funds at December 31, 2014 and 2013. The maximum balance represents the highest indebtedness for each category of borrowed funds at any month-end during each of the periods shown.

	Ending Balance	Period-End Rate	Maximum Balance	Average for the Period	
				Balance	Rate
At or for the Years Ended:					
December 31, 2014:					
FHLB advances	**$19,600,000**	**0.54%**	**$19,600,000**	**$7,048,767**	**0.99%**
Federal funds purchased	-	-	-	**491,556**	**0.00%**
Securities sold under agreements to repurchase	**5,992,085**	**0.30%**	**12,882,063**	**7,920,971**	**0.33%**
December 31, 2013:					
FHLB advances	$ 1,000,000	3.03%	$ 2,000,000	$1,638,356	3.49%
Federal funds purchased	-	-	-	-	-
Securities sold under agreements agreements to repurchase	10,142,253	0.30%	13,116,259	8,632,520	0.35%

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control. We must maintain adequate liquidity to respond to short-term deposit withdrawals, maturities of borrowings, loan demand, and payment of operating expenses.

At December 31, 2014, our liquid assets, consisting of cash and due from banks and federal funds sold, net of drafts outstanding, totaled $7.4 million. Investment securities that have not been pledged as security for deposits and other borrowings, classified as available for sale, provide a secondary source of liquidity because they can be converted to cash in a timely manner. These non-pledged securities had a market value of $36.3 million at December 31, 2014. Our ability to raise additional deposits and to borrow funds also serves additional liquidity sources. Our regulatory capital ratios are at levels that support continued leveraging through continued expansion of our deposit base and additional borrowings. We maintain federal funds lines of credit totaling $ 29.8 million with correspondent banks. Advances under these agreements are unsecured and are limited to terms ranging from 7 to 15 days. These banks have reserved the right to withdraw these lines at their option. We have an approved credit limit of approximately $41.8 million with the FHLB, with $22.2 million unused at December 31, 2014. Further advances from the FHLB are limited to available collateral acceptable to the FHLB which at December 31, 2014, consisted of commercial real estate and home equity lines of credit type loans, non-pledged investment securities, and FHLB stock.

We plan to meet our future cash needs through maturities of loans, maturities and cash flows from investment securities, expansion of our deposit base, and other borrowings.

Shareholders' equity totaled $52.3 million and $32.0 million at December 31, 2014 and December 31, 2013, respectively. The increase in shareholders' equity of $20.3 million during the year ended December 31, 2014 resulted primarily from the merger with Forest Commercial, which added $13.5 million in equity. In addition, we recorded net income of $6.1 million, stock option compensation expense totaling $108 thousand, common shares issued for $106 thousand, and an increase in unrealized gains on securities available for sale of $483 thousand, offset by preferred dividends paid of $50 thousand.

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our bank's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Under the capital adequacy guidelines, capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common shareholders' equity and qualifying preferred stock, excluding the unrealized gain or loss on securities available for sale. Tier 2 capital consists of the allowance for loan losses, subject to certain limitations. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed inherent in the type of asset.

Quantitative measures established by regulation to ensure capital adequacy require our bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets which is known as the Tier 1 leverage ratio. Under the capital guidelines, we must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, we must maintain a minimum Tier 1 leverage ratio of at least 4%. To be considered "well-capitalized," we must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%.

We exceeded the minimum capital requirements set by the regulatory agencies at December 31, 2014 and 2013. The following is a table that reflects our leverage and risk-based regulatory capital ratios and the regulatory minimum requirements at the dates indicated.

	December 31, 2014	December 31, 2013	To be Considered "Well Capitalized"
Total capital (To risk weighted assets)	15.2%	16.9%	10.0%
Tier 1 capital (To risk weighted assets)	14.1%	15.6%	6.0%
Tier 1 capital (To average assets)	12.0%	12.6%	5.0%

In July 2013, the FDIC approved a final rule to implement the Basel III regulatory capital reforms among other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The framework requires banking organizations to hold more and higher quality capital, which acts as a financial cushion to absorb losses, taking into account the impact of risk. The approved rule includes a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% as well as a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking institutions. In terms of quality of capital, the final rule emphasizes common equity tier 1 capital and implements strict eligibility criteria for regulatory capital instruments. It also changes the methodology for calculating risk-weighted assets to enhance risk sensitivity. The changes begin to take effect for us in January 2015, with the results of the new capital standards being reported in the Consolidated Report of Condition and Income for the March 31, 2015 report date.

RETURN ON AVERAGE EQUITY AND ASSETS

The following table shows the return on average assets (net income divided by total average assets), return on equity (net income divided by average equity), and the equity to assets ratio (average equity divided by total average assets) for the periods indicated.

	For the Years Ended December 31,	
	2014	**2013**
Return on average assets	**1.65%**	0.44%
Return on average equity	**13.10%**	3.38%
Average equity to average assets ratio	**12.61%**	13.09%

INTEREST RATE SENSITIVITY

Interest Rate Risk

Interest rate sensitivity is defined as the exposure to variability in net interest income resulting from changes in market-based interest rates. Asset/liability management is the process by which we monitor and control the mix, maturities and interest sensitivity of our assets and liabilities. Asset/liability management seeks to optimize net interest income over time while maintaining a balance sheet mix that is prudent with respect to liquidity, capital adequacy and interest rate risk. The absolute level and volatility of interest rates can have a significant impact on our profitability. Interest rate risk management is the process of identifying and managing the potential adverse impact of interest rate movements on our net interest income and on the fair value of our assets and liabilities.

Measurement of Sensitivity

As a part of our measurement of interest rate sensitivity, we use a "gap" analysis, which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given time period. However, since interest rates and yields on various interest sensitive assets and liabilities do not all adjust in the same degree when there is a change in prevailing interest rates (such as prime rate), the traditional gap analysis is only a general indicator of rate sensitivity and net interest income volatility. Also, net interest income may be impacted by other significant factors in a given interest rate environment, including changes in the volume and mix of earning assets and interest-bearing liabilities. Therefore, we also contract with a third-party to assist in the preparation of a rate sensitivity model which applies rate sensitivity measures to assets and liabilities that will reprice within one year at assumed upward and downward shifts in prime rate.

These estimates are used as a guide by management, recognizing that model risk is always present whenever assumptions of the future must be made. Interest sensitivity is monitored and managed by our management and a committee consisting of certain members of management and of our board of directors. We believe that the current level of interest sensitivity is acceptable and manageable considering our business plan, capital level and other factors.

At December 31, 2014, we were liability sensitive at the one-year gap position, as we have more liabilities subject to repricing in the subsequent twelve month period than assets. The following table presents our gap analysis as of December 31, 2014. The difference between rate-sensitive assets and rate sensitive liabilities is shown below as the "period gap" and "cumulative gap."

	December 31, 2014				
	Within Three Months	After Three but Within Twelve Months	After One but Within Five Years	After Five Years	Total
Interest Earning Assets:					
Federal funds sold and other	$ 2,234,191	$ 1,743,000	$ 2,739,000	$ -	$ 6,716,191
Investment securities	9,375,166	12,863,227	28,543,504	9,994,677	60,776,574
Loans and finance leases	132,741,139	46,408,000	149,715,000	1,955,000	330,819,139
Total interest earning assets	144,350,496	61,014,227	180,997,504	11,949,677	398,311,904
Interest Bearing Liabilities:					
Interest checking	25,222,359	-	-	-	25,222,359
Money market and savings	165,931,224	-	-	-	165,931,224
Time deposits	16,197,580	35,631,000	37,658,000	-	89,486,580
FHLB advances	1,000,000	13,600,000	5,000,000	-	19,600,000
Repurchase agreements	5,992,085	-	-	-	5,992,085
Total interest bearing liabilities	214,343,248	49,231,000	42,658,000	-	306,232,248
Period gap	$(69,992,752)	$ 11,783,227	$138,339,504	$11,949,677	$92,079,656
Cumulative gap	$(69,992,752)	$(58,209,525)	$ 80,129,979	$92,079,656	
Cumulative gap to total interest earning assets	(17.57)%	(14.61)%	20.1%	23.1%	

Contractual Obligations

We utilize a variety of deposit products and borrowings to supplement our supply of lendable funds, to assist in meeting deposit withdrawal requirements, and to fund growth of interest-earning assets in excess of traditional deposit growth. Certificates of deposit, borrowings from the FHLB, borrowings under correspondent bank lines of credit, and repurchase agreements serve as the primary sources of such funds.

The following table provides payments due by period for obligations under our borrowings and other obligations as of December 31, 2014.

	December 31, 2014					
	Within One Year	After One but Within Two Years	After Two but Within Three Years	After Three but Within Five Years	After Five Years	Total
Time deposits	$51,828,219	$21,770,195	$11,280,802	$4,607,364	$ -	$ 89,486,580
Long-term debt	-	2,000,000	1,500,000	1,500,000	-	5,000,000
Short-term borrowings	14,600,000	-	-	-	-	14,600,000
Lease commitments	368,107	356,000	335,683	665,442	182,638	1,907,870
Accrued interest payable	35,935	13,363	6,924	2,828	-	59,050
Total	$66,832,261	$24,139,558	$13,123,409	$6,775,634	$182,638	$111,053,500

IMPACT OF INFLATION

The assets and liabilities of financial institutions such as ours are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the effects of changes in the general rate of inflation and changing prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, we seek to manage the relationships between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those which may result from inflation.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2013, the Financial Accounting Standards Board ("FASB") amended the Liabilities topic of the Accounting Standards Codification to address obligations resulting from joint and several liability arrangements. The guidance addresses recognition of financial commitments arising from joint and several liability arrangements. Specifically, the amendments require recognition of financial commitments arising from loans, contracts, and legal rulings if we can be held liable for the entire claim. The amendments were effective for us for reporting periods ending after December 15, 2014. We do not expect these amendments to have a material effect on our consolidated financial statements.

In January 2014, the FASB amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for us for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. We will apply the amendments prospectively. We do not expect these amendments to have a material effect on its consolidated financial statements.

Other accounting standards that have been issued or proposed by standards-setting bodies are not expected to have a material impact on our financial position, results of operations or cash flows.

MANAGEMENT

Current Executive Officers and Directors of Carolina Alliance

The following sets forth information regarding the executive officers and directors of Carolina Alliance. As previously noted, at the effective time of the merger, the board of directors will consist of the following 15 directors of Carolina Alliance in office immediately prior to the effective time of the merger: Terry L. Cash, W. Louis Bissette, Jr., Carl R. Bartlett, T. Alexander Evins, Marsha H. Gibbs, George M. Groome, John D. Kimberly, Samuel H. Maw, Jr., Susan H. McClinton, D. Byrd Miller III, John S. Poole, W. Allen Rogers, II, R. Lamar Simpson, L. Terrell Sovey and W. Lewis White, Sr., plus three appointees from the board of directors of PBSC Financial. The three appointees will be Richard H. Sumerel, Larry A. Webb, and Marshall E. Franklin. Additional information regarding each of the current Carolina Alliance directors is included under "Proposal No. 2 – Carolina Alliance Directors Proposal" beginning on page 97 of this joint proxy statement/offering circular. Additional information regarding the three PBSC Financial director appointees is included under "Proposal No. 2 – PBSC Financial Directors Proposal" beginning on page 102 of this joint proxy statement/offering circular.

Name*	Age	Class	Position
John S. Poole	62	I	Chief Executive Officer, Director
John D. Kimberly	50	III	President, Director
R. Lamar Simpson	56	II	Chief Financial Officer, Chief Operating Officer, Director
Terrence "Terry" L. Cash	68	I	Chairman of the Board of Directors
Carl R. Bartlett	74	II	Director
W. Louis Bissette, Jr.	71	II	Director
T. Alexander Evins	55	I	Vice Chairman of the Board of Directors
Marsha H. Gibbs	60	II	Director
George M. Groome	63	III	Director
Samuel H. Maw, Jr.	81	II	Director
Susan H. McClinton	71	III	Director
D. Byrd Miller III	55	III	Director
W. Allen Rogers, II	68	III	Director
L. Terrell Sovey	84	I	Director
W. Lewis White, Sr.	62	I	Director

Executive Officer and Director Compensation

Set forth below is selected information regarding the compensation arrangements for Carolina Alliance's executive officers and members of its board of directors.

Total cash compensation of Carolina Alliance's executive officers for the past three years is as follows:

Executive	2014	2013	2012
John S. Poole:	$245,862.37	$258,283.08	$281,936
John D. Kimberly:	$144,113.32*	*	*
R. Lamar Simpson:	$257,992.85	$254,337.54	$280,123

* Mr. Kimberly joined Carolina Alliance on April 5, 2014 upon the consummation of the merger with Forest Commercial Bank.

The board of directors has established a comprehensive compensation program for Carolina Alliance's executive officers, John S. Poole, John D. Kimberly and R. Lamar Simpson, which is administered by Carolina Alliance's personnel and compensation committee. Carolina Alliance has entered into three-year employment agreements with each of its executive officers that provide a base salary; incentive or bonus pay of up to 45% of the annual base salary; issuance of stock options equal to 3% of the initial offering of shares (75,000 options); use of an

automobile; participation in other normal and customary benefits generally available to other employees; and payment of certain club dues and assessments.

The total compensation for Carolina Alliance's executive officers is based upon the committee's consideration of multiple factors such as each executive's years of experience; analysis of market compensation data; their performance compared to the individual's and Carolina Alliance's goals; and other performance measures. The committee reviews these factors in February of each year and develops recommendations for the base salary for the following 12-month period and incentive compensation and/or bonuses for the prior year's accomplishments payable in February of the current year. The recommendations are presented by the committee to the full board of directors for approval (in the absence of the executive officers, all of whom are also members of Carolina Alliance's board of directors).

Until February 2010, the board of directors received no cash or equity compensation. On February 16, 2010, each non-officer director was granted options to purchase 7,500 shares of Carolina Alliance's stock at its market value on that date. The options have a term of 10 years and vest over a five-year period.

In 2012, Carolina Alliance adopted a compensation program for its independent directors. Monthly fees earned by the directors are determined based on a combination of fixed amounts for board and committee membership, and variable amounts based on the number of meetings attended. The program was effective June 1, 2012, and total fee expense was approximately $143,000 in the year ended December 31, 2014.

Directors may elect payment of fees in the form of cash or in bank stock. Fees earned and payable in cash are paid quarterly, and fees payable in bank stock are settled semi-annually. Stock-settled fees earned and accrued in the year ended December 31, 2014 were $105,859, or 17,067 shares, of which 11,186 shares were issuable at December 31, 2014. These shares will be issued in the second quarter of 2015.

Stock Incentive Plan

Carolina Alliance has three stock incentive plans (which we refer to herein as the "Carolina Alliance Plans") for the benefit of the bank's officers, employees and directors. Under terms of the Plans, the board of directors may grant options to purchase common stock of Carolina Alliance aggregating up to 21% of outstanding shares, which amounted to 957,739 shares and 580,263 shares at December 31, 2014 and 2013, respectively.

Options issued under the Carolina Alliance Plans have an exercise price equal to the stock's fair market value (based on the most recent stock trades) on the grant date. The life of options granted cannot exceed 10 years.

In connection with the Forest Commercial merger, Carolina Alliance assumed a total of 284,142 options outstanding under the Forest Commercial Bank 2008 Incentive Stock Option Plan and the Forest Commercial Bank 2008 Nonstatutory Stock Option Plan (which we refer to herein as the "FCB Plans"). Total options available for grant under the FCB Plans was frozen at the amount of options outstanding as of the merger date and the availability of options under the Carolina Alliance Plans was reduced by the amount of option availability under the FCB Plans, such that options available for grant under the Carolina Alliance Plans combined totals 957,739 shares. However, the maximum number of shares that may be issued under the Carolina Alliance Plans shall automatically be increased each time the Company issues additional shares of its common stock so that the total number of shares issuable under the Carolina Alliance Plans, plus the shares of Stock issued under the FCB Plans, shall at all times equal 21% of the then outstanding shares of Carolina Alliance common stock, unless otherwise determined by the Carolina Alliance board of directors. All options outstanding under the FCB Plans were fully vested when assumed by Carolina Alliance and had a weighted average remaining life of 3.5 years. All had an exercise price of $11.04 and a negligible fair value.

Under the Carolina Alliance Plans, Carolina Alliance may grant either incentive stock options or nonqualified stock options. The Carolina Alliance Plans are administered by a committee consisting of at least two members of the board of directors. The committee determines the persons who will receive options and the number of shares that will be covered by their options. The committee also determines the periods of time (not exceeding 10 years from the date of grant in the case of an incentive stock option) during which options will be exercisable and determines whether termination of an optionee's employment under various circumstances would terminate options granted under the Carolina Alliance Plans to that person.

If granted an option under the Carolina Alliance Plans, the optionee will receive an option agreement specifying the terms of the option, such as the number of shares of common stock the optionee can purchase, the price per share, when the optionee can exercise the option, and when the option expires. The option price per share is an amount to be determined by the committee, but will not be less than 100% of the then current market value. The option price is payable in full in cash upon exercise. Carolina Alliance receives no consideration upon granting of an option.

Options generally may not be transferred except by will or by the laws of descent and distribution, and during an optionee's lifetime may be exercised only by the optionee (or by his or her guardian or legal representative, should one be appointed). The grant of an option does not give the optionee any rights of a shareholder until the optionee exercises the option.

The board of directors has the right at any time to terminate or amend the Carolina Alliance Plans but no such action may terminate options already granted or otherwise affect the rights of any optionee under any outstanding option without the optionee's consent.

As of the date hereof, 748,892 options have been granted under the Carolina Alliance Plans. These options were granted from 2007 through 2014 and have per share exercise prices ranging from $8.35 to $15.00.

Committees

Carolina Alliance's board of directors has appointed a number of committees, including an audit committee, personnel and compensation committee, and a nominating committee.

Audit Committee

The audit committee is composed of Alex Evins, as Chair, George Groome, Terrell Sovey, John Poole (Ex-Officio), John Kimberly (Ex-Officio) and Lamar Simpson (Ex-Officio). Each member is considered independent. The audit committee has the responsibility of reviewing Carolina Alliance's financial statements, evaluating internal accounting controls, reviewing reports of regulatory authorities, and determining that all audits and examinations required by law are performed. The audit committee is responsible for overseeing the entire audit function and appraising the effectiveness of internal and external audit efforts. The audit committee reports its findings to the board of directors.

Personnel and Compensation Committee

The personnel and compensation committee is composed of Sam Maw, as Chair, Marsha Gibbs, George Groome, John Kimberly, John Poole (Ex-Officio) and Lamar Simpson (Ex-Officio). Each member is considered independent.

Senior Executive Officer Employment Agreements

John Poole. Carolina Alliance entered into an employment agreement with Mr. Poole on December 2, 2013 under which he serves as the Chief Executive Officer of Carolina Alliance. The employment agreement is for an initial term of three years, and on each anniversary thereafter the term of the agreement will be extended for an additional one year so that the remaining term continues to be three years; provided that Carolina Alliance or Mr. Poole may at any time fix the term to a finite term of three years. During this term, Mr. Poole will be entitled to:

- Base salary of $213,077 per year. The board (or an appropriate committee of the board) reviews Mr. Poole's performance and salary at least annually and may increase, but not decrease, his salary;

- An annual cash bonus of up to 45% of his annual salary based on achievement of overall financial performance benchmarks, which are established by the board of directors from time to time. The board considers factors such as comparison to peer data, actual to projected performance, and other measurements as deemed appropriate from time to time;

- Participate in Carolina Alliance's long-term equity incentive program and to be granted stock options, restricted stock, and other awards thereunder or under any similar plan later adopted by Carolina Alliance;

- Participate in all retirement, health, medical, welfare, and other benefit plans or programs of Carolina Alliance;

- A term life insurance policy providing for death benefits totaling $500,000 payable to Mr. Poole's spouse and heirs and $1,000,000 payable to Carolina Alliance;

- An automobile, including the payment of insurance, taxes, and other related automobile expenses;

- Memberships in the Piedmont Club and the Spartanburg Rotary Club;

- Four weeks paid vacation per year; and

- Reimbursement for travel and business expenses.

Pursuant to the terms of his employment agreement, Mr. Poole is prohibited from disclosing Carolina Alliance's trade secrets or confidential information. If Carolina Alliance terminates Mr. Poole's employment without cause, he will be entitled to severance compensation equal to 100% of his then current monthly base salary for a period of 24 months as well as any bonus earned or accrued through the date of termination.

In the event of a change in control, Carolina Alliance may terminate Mr. Poole's employment agreement without cause or Mr. Poole may terminate his employment agreement for good reason for a period of one year following a change in control. If Mr. Poole desires to terminate his employment agreement, Carolina Alliance shall pay Mr. Poole a lump sum cash payment of his then current monthly base salary multiplied by 36, plus any bonus earned or accrued through the date of termination (including any amounts awarded for previous years but which were not yet vested) and the restrictions on any outstanding incentive awards (including restricted stock) granted to Mr. Poole under Carolina Alliance's long-term equity incentive program or any other incentive plan or arrangement shall lapse and such awards shall become 100% vested, all stock options and stock appreciation rights granted to Mr. Poole shall become immediately exercisable and shall become 100% vested and all performance units granted to Mr. Poole shall become 100% vested.

During Mr. Poole's employment and for a period of 18 months thereafter, Mr. Poole may not, subject to limited exceptions, solicit, divert, or appropriate to or for a competing business any person or entity that is or was a customer of Carolina Alliance or any of its affiliates at any time during the 18 months prior to the date of termination, solicit, divert, or hire away to any competing business located in the Carolina Alliance's territory, any employee of or consultant to Carolina Alliance or any of its affiliates, or compete with Carolina Alliance or any of its affiliates by, directly or indirectly, forming, serving as an organizer, director or officer of, or consultant to, or acquiring or maintaining more than a 1% passive investment in, a depository financial institution or holding company if such depository institution or holding company has one or more offices or branches located in Carolina Alliance's territory. However, Mr. Poole may serve as an officer of or consultant to a depository institution or holding company if Mr. Poole's employment does not directly involve, in whole or in part, the depository financial institution's or holding company's operations in the Carolina Alliance's territory.

John Kimberly. Carolina Alliance entered into an employment agreement with Mr. Kimberly on November 29, 2013 under which he serves as the President of Carolina Alliance. The employment agreement is for an initial term of three years, and on each anniversary thereafter the term of the agreement will be extended for an additional one year so that the remaining term continues to be three years; provided that Carolina Alliance or Mr. Kimberly may at any time fix the term to a finite term of three years. During this term, Mr. Kimberly will be entitled to:

- Base salary of $210,855 per year. The board (or an appropriate committee of the board) reviews Mr. Kimberly's performance and salary at least annually and may increase, but not decrease, his salary;

- An annual cash bonus of up to 45% of his annual salary based on achievement of overall financial performance benchmarks, which are established by the board of directors from time to time. The board considers factors such as comparison to peer data, actual to projected performance, and other measurements

as deemed appropriate from time to time;

- Participate in Carolina Alliance's long-term equity incentive program and to be granted stock options, restricted stock, and other awards thereunder or under any similar plan later adopted by Carolina Alliance;

- Participate in all retirement, health, medical, welfare, and other benefit plans or programs of Carolina Alliance;

- An automobile, including the payment of insurance, taxes, and other related automobile expenses;

- Membership in the Biltmore Forest Country Club;

- Four weeks paid vacation per year; and

- Reimbursement for travel and business expenses.

Pursuant to the terms of his employment agreement, Mr. Kimberly is prohibited from disclosing Carolina Alliance's trade secrets or confidential information. If Carolina Alliance terminates Mr. Kimberly's employment without cause, he will be entitled to severance compensation in an amount equal to 100% of his then current monthly base salary for a period of 24 months as well as any bonus earned or accrued through the date of termination.

In the event of a change in control, Carolina Alliance may terminate Mr. Kimberly's employment agreement without cause or Mr. Kimberly may terminate his employment agreement for good reason for a period of one year following a change in control. If Mr. Kimberly desires to terminate his employment agreement, Carolina Alliance shall pay Mr. Kimberly a lump sum cash payment of his then current monthly base salary multiplied by 36, plus any bonus earned or accrued through the date of termination (including any amounts awarded for previous years but which were not yet vested) and the restrictions on any outstanding incentive awards (including restricted stock) granted to Mr. Kimberly under Carolina Alliance's long-term equity incentive program or any other incentive plan or arrangement shall lapse and such awards shall become 100% vested, all stock options and stock appreciation rights granted to Mr. Kimberly shall become immediately exercisable and shall become 100% vested and all performance units granted to Mr. Kimberly shall become 100% vested.

During Mr. Kimberly's employment and for a period of 18 months thereafter, Mr. Kimberly may not, subject to limited exceptions, solicit, divert, or appropriate to or for a competing business any person or entity that is or was a customer of Carolina Alliance or any of its affiliates at any time during the 18 months prior to the date of termination, solicit, divert, or hire away to any competing business located in the Carolina Alliance's territory, any employee of or consultant to Carolina Alliance or any of its affiliates, or compete with Carolina Alliance or any of its affiliates by, directly or indirectly, forming, serving as an organizer, director or officer of, or consultant to, or acquiring or maintaining more than a 1% passive investment in, a depository financial institution or holding company if such depository institution or holding company has one or more offices or branches located in the Carolina Alliance's territory. However, Mr. Kimberly may serve as an officer of or consultant to a depository institution or holding company if Mr. Kimberly's employment does not directly involve, in whole or in part, the depository financial institution's or holding company's operations in the Carolina Alliance's territory.

Lamar Simpson. Carolina Alliance entered into an employment agreement with Mr. Simpson on December 2, 2013 under which he serves as the Chief Financial Officer of Carolina Alliance. The employment agreement is for an initial term of three years, and on each anniversary thereafter the term of the agreement will be extended for an additional one year so that the remaining term continues to be three years; provided that Carolina Alliance or Mr. Simpson may at any time fix the term to a finite term of three years. During this term, Mr. Simpson will be entitled to:

- Base salary of $207,614 per year. The board (or an appropriate committee of the board) reviews Mr. Simpson's performance and salary at least annually and may increase, but not decrease, his salary;

- An annual cash bonus of up to 45% of his annual salary based on achievement of overall financial performance benchmarks, which are established by the board of directors from time to time. The board

considers factors such as comparison to peer data, actual to projected performance, and other measurements as deemed appropriate from time to time;

- Participate in Carolina Alliance's long-term equity incentive program and to be granted stock options, restricted stock, and other awards thereunder or under any similar plan later adopted by Carolina Alliance;

- Participate in all retirement, health, medical, welfare, and other benefit plans or programs of Carolina Alliance;

- A term life insurance policy providing for death benefits totaling $500,000 payable to Mr. Simpson's spouse and heirs and $1,000,000 payable to Carolina Alliance;

- An automobile, including the payment of insurance, taxes, and other related automobile expenses;

- Four weeks paid vacation per year; and

- Reimbursement for travel and business expenses.

Pursuant to the terms of his employment agreement, Mr. Simpson is prohibited from disclosing Carolina Alliance's trade secrets or confidential information. If Carolina Alliance terminates Mr. Simpson's employment without cause, he will be entitled to severance compensation in an amount equal to 100% of his then current monthly base salary for a period of 24 months as well as any bonus earned or accrued through the date of termination.

In the event of a change in control, Carolina Alliance may terminate Mr. Simpson's employment agreement without cause or Mr. Simpson may terminate his employment agreement for good reason for a period of one year following a change in control. If Mr. Simpson desires to terminate his employment agreement, Carolina Alliance shall pay Mr. Simpson a lump sum cash payment of his then current monthly base salary multiplied by 36, plus any bonus earned or accrued through the date of termination (including any amounts awarded for previous years but which were not yet vested) and the restrictions on any outstanding incentive awards (including restricted stock) granted to Mr. Simpson under Carolina Alliance's long-term equity incentive program or any other incentive plan or arrangement shall lapse and such awards shall become 100% vested, all stock options and stock appreciation rights granted to Mr. Simpson shall become immediately exercisable and shall become 100% vested and all performance units granted to Mr. Simpson shall become 100% vested.

During Mr. Simpson's employment and for a period of 18 months thereafter, Mr. Simpson may not, subject to limited exceptions, solicit, divert, or appropriate to or for a competing business any person or entity that is or was a customer of Carolina Alliance or any of its affiliates at any time during the 18 months prior to the date of termination, solicit, divert, or hire away to any competing business located in the Carolina Alliance's territory, any employee of or consultant to Carolina Alliance or any of its affiliates, or compete with Carolina Alliance or any of its affiliates by, directly or indirectly, forming, serving as an organizer, director or officer of, or consultant to, or acquiring or maintaining more than a 1% passive investment in, a depository financial institution or holding company if such depository institution or holding company has one or more offices or branches located in the Carolina Alliance's territory. However, Mr. Simpson may serve as an officer of or consultant to a depository institution or holding company if Mr. Simpson's employment does not directly involve, in whole or in part, the depository financial institution's or holding company's operations in the Carolina Alliance's territory.

Employment Agreements Effective Upon Consummation of the Merger

For a description of Carolina Alliance's employment agreements with Messrs. Barnett, Weaver and Stewart and Carolina Alliance's assumption of Mr. Warren's current employment agreement, see "Interests of Employees and Directors of PBSC Financial in the Merger" on page 68 herein.

Corporate Governance

Carolina Alliance periodically reviews its corporate governance policies and procedures which are designed to establish high standards of ethical conduct and provide that Carolina Alliance report results with

accuracy and transparency and maintain full compliance with the laws, rules and regulations that govern its operations. As part of this periodic review, the board of directors reviews and adopts best corporate governance policies and practices for Carolina Alliance.

Code of Ethics

Carolina Alliance has adopted a Code of Ethics that is designed to ensure that its directors, executive officers and employees meet the highest standards of ethical conduct. The Code of Ethics requires that Carolina Alliance's directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in Carolina Alliance's best interest. Under the terms of the Code of Ethics, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethics.

As a mechanism to encourage compliance with the Code of Ethics, Carolina Alliance has adopted a policy regarding its method of receiving, retaining and treating complaints received regarding accounting, internal accounting controls or auditing matters. This policy ensures that employees may submit concerns in good faith regarding questionable accounting or auditing matters in a confidential and anonymous manner without fear of dismissal or retaliation of any kind. A copy of the Code of Ethics is available upon request.

CAROLINA ALLIANCE SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to Carolina Alliance with respect to beneficial ownership of Carolina Alliance common stock as of April 30, 2015 for (i) each director, (ii) each holder of 5.0% or greater of Carolina Alliance common stock, (iii) Carolina Alliance's Chief Executive Officer, President and Chief Financial Officer and (iv) all executive officers and directors as a group. The fifth column sets forth information anticipated by Carolina Alliance with respect to the beneficial ownership of Carolina Alliance common stock, giving effect to the merger.

Carolina Alliance also has issued and outstanding 5,000 shares of Non-Cumulative Perpetual Preferred Stock, Series A. All of the Series A Preferred Stock was issued to the United States Department of the Treasury on August 23, 2011 in connection with Carolina Alliance's participation in the Small Business Lending Fund Program. The Treasury is the beneficial owner of 100% of the issued and outstanding shares of Series A Preferred Stock, and therefore, no further disclosure with respect to the Series A Preferred Stock is contained in the table below.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, to Carolina Alliance's knowledge the persons named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned. The number of shares beneficially owned by each person or group as of April 30, 2015 includes shares of common stock that such person or group had the right to acquire on or within 60 days after April 30, 2015, including, but not limited to, upon the exercise of options. References to options in the footnotes of the table below include only options to purchase shares outstanding as of April 30, 2015 that were exercisable on or within 60 days after April 30, 2015. For each individual and group included in the table below, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the 4,560,660 shares of common stock outstanding on April 30, 2015 plus the number of shares of common stock that such person or group had the right to acquire on or within 60 days after April 30, 2015.

Name of Beneficial Owner	Number of Shares Owned	Right to Acquire[1]	Beneficial Ownership prior to Merger[2]	Beneficial Ownership after Merger[3]
Executive Officers and Directors				
Carl R. Bartlett	8,969	15,946	0.54%	0.40%
W. Louis Bissette, Jr.	10,963	31,891	0.93%	0.69%
Terrence "Terry" L. Cash	77,837	8,250	1.88%	1.39%
T. Alexander Evins	52,586	8,250	1.33%	0.98%
Marsha H. Gibbs	15,637	8,250	0.52%	0.39%
George M. Groome	9,060	11,959	0.46%	0.34%
John D. Kimberly	9,060	54,360	1.37%	1.01%
Samuel H. Maw, Jr.	58,054	8,250	1.45%	1.07%
Susan H. McClinton	8,969	11,959	0.46%	0.34%
D. Byrd Miller III	21,225	8,250	0.65%	0.48%
John S. Poole	27,500	82,500	2.37%	1.75%
W. Allen Rogers, II	8,969	11,959	0.46%	0.34%
R. Lamar Simpson	27,500	82,500	2.37%	1.75%
L. Terrell Sovey	98,689	8,250	2.34%	1.72%
W. Lewis White, Sr.	20,469	8,250	0.63%	0.46%
All directors and executive officers as a group (15 persons)	455,487	360,824	16.59%	12.45%

(1) Includes shares that may be acquired within 60 days of April 30, 2015 by exercising vested stock options, but does not include any unvested stock options.

(2) For each individual, this percentage is determined by assuming the named person exercises all options which he or she has the right to acquire within 60 days, but that no other persons exercise any options. For the directors and executive officers as a group, this percentage is determined by assuming that every director and executive officer exercises all options which he or she has the right to

acquire within 60 days, but that no other persons exercise any options. The calculations are based on 4,560,660 share of common stock outstanding on April 30, 2015.

(3) For each individual, this percentage is determined by assuming the named person exercises all options which he or she has the right to acquire within 60 days, but that no other persons exercise any options. For the directors and executive officers as a group, this percentage is determined by assuming that every director and executive officer exercises all options which he or she has the right to acquire within 60 days, but that no other persons exercise any options. The calculations are based on 6,194,280 pro forma total shares of common stock outstanding on April 30, 2015, assuming that 1,633,620 shares of Carolina Alliance common stock are issued in the merger.

CAROLINA ALLIANCE RELATIONSHIPS AND RELATED TRANSACTIONS

Interests of Management and Others in Certain Transactions

Carolina Alliance enters into banking and other transactions in the ordinary course of business with its directors and officers and their affiliates. It is Carolina Alliance's policy that these related party transactions be on substantially the same terms (including price, or interest rates and collateral) as those prevailing at the time for comparable transactions with unrelated parties. Carolina Alliance does not expect these transactions to involve more than the normal risk of collectability nor present other unfavorable features to Carolina Alliance. Loans to individual directors and officers must also comply with Carolina Alliance's lending policies and statutory lending limits, and directors with a personal interest in any loan application are excluded from the consideration of the loan application. As of December 31, 2014, the aggregate amount of credit Carolina Alliance extended to directors, executive officers, and principal shareholders was $5.8 million, representing approximately11% of Carolina Alliance's shareholders' equity. Carolina Alliance intends for all of its transactions with its affiliates to be on terms no less favorable to Carolina Alliance than could be obtained from an unaffiliated third party and to be approved by a majority of disinterested directors. Director independence is reviewed on an annual basis by the audit committee.

Carolina Alliance has a written policy contained in its Code of Ethics which describes the procedures for reviewing transactions between Carolina Alliance and its directors and executive officers, their immediate family members and entities with which they have a position or relationship. These procedures are intended to determine whether any such related party transaction impairs the independence of a director or presents a conflict of interest on the part of a director of executive officer.

Carolina Alliance annually requires each of its directors and executive officers to complete a directors' and officers' questionnaire that elicits information about related party transactions. Carolina Alliance's management annually reviews all transactions and relationships disclosed in the director and officer questionnaires, and the board of directors makes a formal determination regarding each director's independence.

Carolina Alliance is subject to the provisions of Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates and prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. Under Regulation O, Carolina Alliance is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

In addition to the annual review, Carolina Alliance's Code of Ethics requires that its Chief Executive Officer be notified of any proposed transaction involving a director or executive officer that may present an actual or potential conflict of interest, and that such transaction be presented to and approved by the audit committee. Upon receiving any notice of a related party transaction involving a director or executive officer, the Chief Executive Officer will discuss the transaction with the Chair of Carolina Alliance's audit committee. If the likelihood exists that the transaction would present a conflict of interest or, in the case of a director, impair the director's independence, the audit committee will review the transaction and its ramifications. If, in the case of a director, the audit committee determines that the transaction presents a conflict of interest or impairs the director's independence, the board of directors will determine the appropriate response. If, in the case of an executive officer, the audit committee determines that the transaction presents a conflict of interest, the audit committee will determine the appropriate response.

INFORMATION ABOUT PINNACLE

General

PBSC Financial was organized in 2005 as a South Carolina bank holding company, and its wholly-owned subsidiary, Pinnacle Bank, was chartered on January 9, 2006, and operates as a South Carolina state bank. PBSC Financial conducts nearly all of its business through Pinnacle Bank, which operates as a relationship-focused community bank in Greenville, South Carolina. At December 31, 2014, PBSC Financial had total assets of approximately $154 million, net loans of approximately $122 million, and total deposits of approximately $123 million.

Marketing

Service Area. Pinnacle Bank currently serves its customers through three full-service banking offices – one office in the city of Greenville, South Carolina, which is located in Greenville County, one office located in Powdersville, South Carolina, which is located in Anderson County, and one office located in Easley, South Carolina, which is located in Pickens County. All of Pinnacle Bank's branches are considered to be part of the Greenville-Mauldin-Easley metropolitan statistical area (MSA).

Economic and Demographic Factors. The Greenville-Mauldin-Easley (MSA) is centered in Greenville, Anderson and Pickens counties, South Carolina, approximately halfway between Atlanta and Charlotte on the heavily-traveled I-85 business corridor. Greenville County is South Carolina's most populous county with an estimated 474,000 residents as of July 1, 2013 and is also one of the state's wealthiest counties with estimated median household income of $48,000 for 2012. A large and diverse metropolitan area, Greenville County is one of the southeast region's premier areas for business, serving as headquarters for Michelin and Hubbell Lighting as well as hosting significant operations for BMW and Lockheed Martin.

Greenville, Powdersville, and Easley, South Carolina are also part of a 10-county region in northwestern South Carolina known as "The Upstate," which also includes Spartanburg and Anderson, South Carolina along the I-85 corridor. The Upstate is, by population, the largest combined statistical area in South Carolina, and, in addition to its robust manufacturing sector, which also includes significant research and development facilities for several international corporations, as well as burgeoning health care and service industries. The Upstate also hosts a number of institutions of higher education, including Clemson University, Furman University, Presbyterian College and Wofford College, among others.

Competition and Business Strategy

Pinnacle Bank's business is highly competitive. Pinnacle Bank competes in its market areas with large regional and national banking organizations, other federally and state chartered financial institutions such as savings and loan institutions and credit unions, consumer finance companies, mortgage companies and other lenders engaged in the business of extending credit. Many of Pinnacle Bank's competitors have broader geographic markets and higher lending limits than it does and are also able to provide more services and make greater use of media advertising. The Greenville market is also served by branches of the largest banks in South Carolina and the United States.

Despite the competition in the Greenville market area, Pinnacle Bank has certain competitive advantages that distinguish it from its competition. Pinnacle Bank serves the needs of businesses, business owners, and professionals by creating mutually beneficial and robust relationships with its customers and positively impacting its communities. In addition to offering standard banking products and services, Pinnacle Bank's employees build relationships with their customers by understanding their personal and business challenges and goals, and by providing tangible solutions. Pinnacle Bank offers customers modern banking services and technology with prompt, personal service and friendliness. Pinnacle Bank also relies on traditional marketing to attract new customers. To enhance a positive image in the community, Pinnacle Bank supports and participates in local events and Pinnacle's officers and directors serve on boards of local civic and charitable organizations.

Lending Activities

General. Pinnacle Bank provides a wide range of business and consumer loans in the market it serves. Pinnacle's goal is to have a well-diversified and balanced loan portfolio focusing on commercial and industrial, consumer and commercial real estate loans. In order to manage its loan portfolio risk, Pinnacle Bank has established concentration limits by borrower, product type, maturity, loan structure, industry and geography. The majority of Pinnacle Bank's business loans are secured by business assets and real estate. Consumer loans are primarily secured with personal assets and real estate. Underwriting is primarily focused on the underlying cash flow of the business or consumer and secondarily on the assets securing the loans.

Pinnacle Bank's loan policies and procedures establish the basic guidelines governing its lending operations. The guidelines address the types of loans that sought by Pinnacle Bank, target markets, underwriting, collateral requirements, terms, interest rate, yield considerations and compliance with laws and regulations. The loan policies are reviewed and approved annually by Pinnacle's board of directors.

The summary below provides an overview of the types of loans currently offered by Pinnacle Bank, as well as their particular credit risks.

- *Real Estate—Residential 1-4 Family*. Pinnacle Bank's residential mortgage loan department primarily originates loans for sale into the secondary market. Pinnacle Bank generally does not retain long-term, fixed rate residential real estate loans in its portfolio due to interest rate and collateral risks and low levels of profitability.

  Those residential loans to individuals that are retained in Pinnacle Bank's loan portfolio primarily consist of first liens on 1-4 family residential mortgages, home equity loans and lines of credit. These held-for-investment loans are generally made on the basis of the borrower's ability to repay the loan from his or her employment and other income and are secured by residential real estate, the value of which is reasonably ascertainable. Pinnacle Bank also expects that the loan-to-value ratios for held-to-investment loans will be sufficient to compensate for fluctuations in real estate market value and to minimize losses that could result from a downturn in the residential real estate market.

- *Real Estate—Commercial, Multi-Family and Farmland*. Pinnacle Bank makes commercial mortgage loans to finance the purchase of real property as well as loans to smaller business ventures, credit lines for working capital and short-term seasonal or inventory financing, including letters of credit, that are also secured by real estate. Commercial mortgage lending typically involves higher loan principal amounts, and the repayment of loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service. As a general practice, Pinnacle Bank requires its commercial mortgage loans to be collateralized by well-managed income-producing property with adequate margins and to be guaranteed by responsible parties. In addition, approximately 23% of our commercial mortgage loan portfolio is secured by owner-occupied commercial buildings. Pinnacle Bank looks for opportunities where cash flow from the business located in the owner-occupied building provides adequate debt service coverage and the guarantor's net worth is primarily based on assets other than the project financed by the bank. Pinnacle Bank's commercial mortgage loans are generally collateralized by first liens on real estate, have fixed or floating interest rates and amortize over a 10 to 25-year period with balloon payments generally due at the end of one to seven years. Payments on loans collateralized by such properties are often dependent on the successful operation or management of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market.

  In underwriting commercial mortgage loans, Pinnacle Bank seeks to minimize its risks in a variety of ways, including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and physical condition. Pinnacle's underwriting analysis also includes credit checks, reviews of appraisals and environmental hazards or EPA reports and a review of the financial condition of the borrower.

Pinnacle Bank attempts to limit its risk by analyzing the borrowers' cash flow and collateral value on a regular and ongoing basis.

- *Real Estate—Construction*. Pinnacle Bank also makes construction and development loans to residential and, to a lesser extent, commercial contractors and developers located within the Greenville market. Construction loans generally are secured by first liens on real estate and have floating interest rates. Construction loans involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the value of the project is dependent on its successful completion. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, upon the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan.

  If Pinnacle Bank is forced to foreclose on a project prior to completion, there is no assurance that it will be able to recover all of the unpaid portion of the loan. In addition, Pinnacle may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time. While Pinnacle Bank has underwriting procedures designed to identify what it believes to be acceptable levels of risks in construction lending, no assurance can be given that these procedures will prevent losses from the risks described above. To further minimize Pinnacle's risk, Pinnacle Bank has identified and targeted certain builders within its markets with satisfactory performance throughout the last recession.

- *Commercial*. Pinnacle Bank's commercial loan portfolio includes loans to smaller business ventures, credit lines for working capital and short-term seasonal or inventory financing, as well as letters of credit that are generally secured by collateral other than real estate. Commercial borrowers typically secure their loans with assets of the business, personal guaranties of their principals and often mortgages on the principals' personal residences. Pinnacle Bank's commercial loans are primarily made within its market areas and are underwritten on the basis of the commercial borrower's ability to service the debt from income. In general, commercial loans involve more credit risk than residential and commercial mortgage loans, but less risk than consumer loans. The increased risk in commercial loans is generally due to the type of assets collateralizing these loans. The increased risk also derives from the expectation that commercial loans generally will be serviced from the operations of the business, and those operations may not be successful.

- *Consumer*. Pinnacle Bank makes a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. Consumer loans entail greater risk than other loans, particularly in the case of consumer loans that are unsecured or secured by depreciating assets such as automobiles. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by job loss, divorce, illness or personal hardships.

- *SBA Guaranteed Loans*. Pinnacle Bank provides loans guaranteed by the Small Business Administration ("SBA") for the purchase of businesses, business startups, business expansion, equipment, and working capital. All SBA loans are underwritten and documented as prescribed by the SBA. SBA loans are generally fully amortizing and have maturity dates and amortizations of up to 25 years.

Lending Policies. Pinnacle Bank's board of directors has established and periodically reviews Pinnacle's lending policies and procedures. Pinnacle Bank has established common documentation and standards based on the applicable type of loan. There are regulatory restrictions on the dollar amount of loans available for each lending relationship. National banking regulations provide that no loan relationship may exceed 15% of a bank's Tier 1 capital. At December 31, 2014, Pinnacle Bank's legal lending limit was approximately $3.2 million, which is significantly less than many of Pinnacle's competitors. Pinnacle occasionally buys and sells participation interests in loans to other lenders, primarily when a loan exceeds its lending limits.

Concentrations. The retail nature of Pinnacle's commercial banking operations allows for diversification of depositors and borrowers, and it believes that its business does not depend upon a single or a few customers. Pinnacle believes that its credit exposure is diversified, and is not concentrated within a single industry or group of related industries.

Deposit Services

Deposits are the primary source of funds for Pinnacle Bank's lending and investing activities; therefore, deposit cost is the largest driver of Pinnacle's interest expense. Pinnacle Bank provides a range of deposit services to businesses and individuals, including non-interest bearing checking accounts, interest bearing checking accounts, savings accounts, money market accounts, IRA's and CD's. These accounts generally earn interest at rates established by Pinnacle Bank based on market factors and the anticipated amount and timing of funding needs. At times, Pinnacle Bank uses brokered deposits to supplement its funding sources, but Pinnacle strives instead to establish customer relationships to attract core deposits. Therefore, the establishment or continuity of a core deposit relationship is a factor in Pinnacle Bank's lending decisions. At December 31, 2014, brokered deposits represented approximately 12% of Pinnacle Bank's total deposits.

Deposit Distribution. Pinnacle's percentage distribution of its deposits as of December 31, 2014 is detailed under "Deposits" in the Balance Sheet Review section of "Management's Discussion and Analysis of Financial Condition and Results of Operations". Pinnacle's deposit distributions will vary over time depending on its customers' requirements and our strategies to manage deposit levels, cost of funds, and interest rate risk.

Other Banking Services

Pinnacle Bank offers cashier's checks, banking by mail, direct deposit of payroll and social security checks, remote deposit capture services, United States Savings Bonds, and travelers' checks. The bank also operates ATMs in Easley and Powdersville, South Carolina. Pinnacle Bank also offers debit card and credit card services through a correspondent bank as an agent for the bank. The bank also offers other bank services, including lines of credit, 24-hour telephone banking, and online banking.

Employees

Pinnacle has approximately 35 full-time employees.

Properties

Pinnacle currently operates out of three full-service banking offices as set forth below:

Office Location	Approximate Square Footage	Year Established
Full-Service Offices:		
937 North Pleasantburg Drive, Greenville, SC 29607	12,000	2006
6501 Calhoun Memorial Highway, Easley, SC 29640	4,000	2015
10515 Anderson Road, Easley, SC 29642	3,100	2008

Legal Proceedings

Pinnacle is not aware of any threatened or pending material legal proceedings against the bank.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis is intended to assist the reader in understanding our financial condition and results of operations. This commentary should be read in conjunction with the financial statements and the related notes and other statistical information included in this report.

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by and information currently available to management. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," "may," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements, and our operating performance is subject to various risks and uncertainties, including, without limitation:

- Significant increases in competitive pressure in the banking and financial services industries;
- Changes in the interest rate environment which could reduce anticipated or actual margins;
- Changes in political conditions or the legislative or regulatory environment;
- The level of allowance for loan loss;
- The rate of delinquencies and amounts of charge-offs;
- The rates of loan growth;
- Adverse changes in asset quality and resulting credit risk-related losses and expenses;
- General economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- Changes occurring in business conditions and inflation;
- Changes in technology;
- Changes in monetary and tax policies;
- Changes in the securities markets; and
- Other risks and uncertainties.

OVERVIEW

Pinnacle Bank of South Carolina (the "Bank") began banking operations on January 9, 2006. The Bank is engaged in commercial banking principally in Greenville County and surrounding counties of South Carolina, operating under various federal and state banking rules and regulations and the South Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities.

The following table sets forth selected measures of our financial position or performance for the dates or periods indicated.

	As of or for the Years Ended December 31,	
	2014	**2013**
Total revenue (1)	7,038,755	6,818,205
Net income	1,453,532	1,141,011
Total assets	154,241,117	144,727,570
Gross loans	122,938,712	111,806,508
Total deposits	122,851,931	116,194,598

(1) Total revenue equals net interest income plus other income.

Like most financial institutions, we derive the majority of our income from interest we receive on our interest-earning assets, such as loans and investments. Our primary source of funds for making these loans and investments is deposits, on which we pay interest. Consequently, one of the key measures of our success is the amount of net interest income, or the difference between the income on our average interest-earning assets and the expense on our average interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on these average interest-earning assets and the rate we pay on our average interest-bearing liabilities, which is called net interest spread.

There are risks inherent in all loans, and we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. This allowance is maintained by charging a provision for loan losses against operating income. A detailed discussion of this process, as well as several tables describing the allowance for loan losses is included in this discussion.

In addition to earning interest on our loans and investments, we earn income through other sources, including mortgage origination income. The various components of other income, as well as other expenses, are included in this discussion.

SIGNIFICANT ACCOUNTING POLICIES

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America and that are consistent with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements.

Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions used are based on historical experience and other factors, which we believe to be reasonable under the circumstances and which have been consistent with prior periods. Because of the nature of the judgments and assumptions made, actual results could differ from these estimates, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, other-than-temporary impairment of securities and the fair value of financial instruments.

Loans **-** Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Significant loan origination fees, net of related costs, are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. The accrual of interest is also discontinued when a loan becomes contractually past due 90 days or more, unless the loan is well-secured and in the process of collection. When the interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized on the cash-basis or cost-recovery method, until the loans are returned to accrual status.

A troubled debt restructuring ("TDR") occurs when a borrower is experiencing financial difficulty and the Bank grants a concession to provide the borrower relief from one or more of the contractual loan conditions. Concessions that the Bank might consider include the allowance of interest-only payments on an extended basis, the reduction of interest rates, the extension of the loan term, the forgiveness of principal, or a combination of these.

The Bank classifies TDR's as impaired loans and evaluates the need for an allowance for loan loss on a loan-by-loan basis consistent with its evaluation of impaired loans that have not been modified as TDRs. An allowance is based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the estimated fair value of the underlying collateral less any selling costs.

Allowance for Loan Losses - The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current economic conditions, independent reviews of the loan portfolio, delinquency information, management's internal review of the loan portfolio and other qualitative factors. Loans are considered impaired when it is probable that all amounts due under the contractual terms of the loan will not be collected. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may require the Bank to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Income Taxes – The Company and Bank have elected to be taxed under sections of federal income tax law, which provides that, in lieu of corporate income taxes, the stockholders separately account for their pro rata share of the Company's items of income, deductions, losses and credits. As a result of this election, no federal income taxes have been recognized in the financial statements.

The Bank has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2014 and 2013. Fiscal years ending on or after December 31, 2011 remain subject to examination by federal and state tax authorities.

OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the balance sheet. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparties. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments where the contract amount represents the Bank's credit risk at December 31, 2014 and December 31, 2013, include loan commitments of $12.9 million and $12.7 million and standby letters of credit of $138,883 and $411.033, respectively. In management's opinion, these commitments represent no more than normal lending risk to the Bank and will be funded from normal sources of liquidity.

RESULTS OF OPERATIONS

Overview

Net income for the year ended December 31, 2014 was $1,453,532, or $0.79 per diluted share, compared to net income of $1,141,011, or $0.62 per diluted share, for the year ended December 31, 2013. This was a $312,521 or $0.17 per diluted share, improvement in the net income and diluted earnings per share, respectively, over the prior year. This improvement in our earnings resulted largely from an increase in net interest income which was driven by an increase in total interest-earning assets.

Net income for the year ended December 31, 2013 was $1,141,011, or $0.62 per diluted share, compared to net income of $1,214,451, or $0.66 per diluted share, for the year ended December 31, 2012. This was a $73,440 or $0.04 per diluted share decrease in net income and diluted earnings per share, respectively, over the comparative period. This decrease in our earnings resulted primarily from a decrease in other income of $175,560 and an increase in other expenses of $333,732. These reductions in earnings were somewhat offset by a decrease in the provision for loan losses of $420,000.

Net Interest Income

The largest component of our income is net interest income, the difference between the income earned on assets and the interest expense on deposits and borrowings used to support such assets. Net interest margin is determined by dividing the annual net interest income by average earning assets.

For the year ended December 31, 2014, net interest income was $5.8 million, which represented a 5% increase from $5.5 million earned for the year ended December 31, 2013. The improvement in 2014 was attributable primarily to an increase in the volume of earning assets, particularly loans, and a slight increase in the rate earned on our interest-earning assets. In addition to the increase in the volume of interest-earning assets there was a decrease in the volume of interest-bearing liabilities combined with a slight decrease in the rate paid on our interest-bearing liabilities. Net interest margin for the year ended December 31, 2014 was 4.09% compared to 4.00% for the year ended December 31, 2013.

For the year ended December 31, 2013, net interest income was $5.5 million, which represented a 1.5% increase from $5.4 million earned in the year ended December 31, 2012. The improvement in 2013 was primarily due to an increase in the average balances of outstanding loans and a decrease in the rates paid on interest-bearing liabilities. These increases were somewhat offset by increased interest-bearing liabilities and a decrease in the average yield on our earning assets. Net interest margin for the year ended December 31, 2013 was 4.00% compared to 4.14% for the year ended December 31, 2012.

See further details of the changes in and components of net interest income following under the headings: "Interest Income," "Interest Expense," "Average Balances, Yields, and Rates," and "Rate/Volume Analysis."

Interest Income

Comparison of the years ended December 31, 2014 and December 31, 2013

Interest income totaled $6.1 million for the year ended December 31, 2014 compared to $5.9 million in 2013, an increase of 4%. This increase resulted from the net effect of increased outstanding balances and an increase in the yield on earning assets. Average earning assets were $140.9 million for the year ended December 31, 2014, with an average yield of 4.36%. For the year ended December 31, 2013, average earning assets and average yield were $137.3 million and 4.29%, respectively.

Loan interest income for the year ended December 31, 2014 totaled $5.7 million, compared to $5.4 million in 2013. The average yield on loans was 4.77% for the year of 2014, compared to 4.90% for the year in 2013. The decrease in yield in 2014 as compared to 2013 is due in part to the mix of loans in the portfolio and the continued low interest rate environment. Average balances of loans increased to $119.4 million for the year ended December 2014, an increase of $9.4 million over the average of $110.0 million during the year ended December 31, 2013. The increase in average balances more than offsets the impact of the decrease in yield on interest income.

Interest earned on investment securities amounted to $422,565 for the year in 2014 as compared to $454,574 earned in 2013, a decrease of $32,009. The decrease resulted from a decline in the amount of investment securities held on average during 2014 offset by a slight increase in the average yield. The average balance of investment securities was $15.8 million in 2014, a decrease of $2.5 million from the average balance of $18.3 million in 2013. Investment securities yielded 2.68% for the year ended December 31, 2014 compared to 2.49% as compared to the previous year. Proceeds from maturities, pay-downs and calls of securities were used to fund loan growth as loans produce a higher return for the Bank.

Comparison of the years ended December 31, 2013 and December 31, 2012

Interest income totaled $5.9 million for the year ended December 31, 2013 compared to $6.0 million in 2012, a decrease of 2%. This decrease resulted from the net effect of increased outstanding balances which was more than offset by a decrease in the yield on earning assets. Average earning assets were $137.3 million for the year ended December 31, 2013, with an average yield of 4.29%. For the year ended December 31, 2012, average earning assets and average yield were $130.6 million and 4.61%, respectively.

Loan interest income for the year ended December 31, 2013 totaled $5.4 million, compared to $5.5 million in 2012. The average yield on loans was 4.90% in 2013, compared to 5.21 % in 2012. The decrease in yield in 2013 as compared to 2012 is primarily the result of the impact of decreases in both prevailing rates and the mix of loans held. Average balances of loans increased to $110.0 million during the year ended December 31, 2013, an increase of $5.0 million over the average of $105.0 million during the year ended December 31, 2012. The decrease in yield offset the increase in average balances for a net decrease in interest income on loans.

Interest earned on investment securities amounted to $454,574 for the year ended December 31, 2013 as compared to $500,533 earned in the year ended December 31, 2012, a decrease of $45,959. The decrease resulted from a decrease in their average yield which was partially offset by a slight increase in the average balance outstanding for the year. The average balance of investment securities was $18.3 million in 2013, an increase of $0.3 million from the average balance of $18.0 million in 2012. Investment securities yielded 2.49% for the year ended December 31 2013, compared to 2.78% for the previous year. This difference resulted in part from the effect of early redemptions of securities held in the portfolio during 2013 and 2012 that had higher yields than the average yield on the balance of the portfolio. Also, accelerated principal repayments on mortgage-related securities have resulted in the lowering of our yield on investment securities as the proceeds of the repayments have been reinvested at lower current rates. Further, principal repayments on mortgage-related securities have accelerated the amortization of purchase premiums, which in turn have lowered their yields. These principal repayments are largely the result of the refinancing of the underlying mortgages due to lower prevailing mortgage interest rates. See "Other Income" for further discussion of sales of investment securities.

Interest Expense

Comparison of the years ended December 31, 2014 and December 31, 2013

Interest expense totaled $372,298 for the year ended December 31, 2014 compared to $400,953 in 2013. This decrease resulted from the effect of decreased outstanding balances of interest-bearing liabilities and a decrease in the average rates paid on interest-bearing liabilities. Average interest-bearing liabilities were $106.4 million with an average cost of 0.35% in 2014, compared to $108.7 million and 0.37%, respectively in 2013.

Interest expense on deposits totaled $331,482 for the year ended December 31, 2014 compared to $354,196 in 2013. Average interest-bearing deposits were $96.0 million with an average cost of 0.35% in 2014, compared to $97.6 million and 0.36%, respectively in 2013. The decrease in cost is primarily due to the decrease in the amount of average interest-bearing deposits outstanding during the year.

Comparison of the years ended December 31, 2013 and December 31, 2012

Interest expense totaled $400,953 for year ended December 31, 2013 compared to $609,934 for the year ended December 31, 2012. This decrease resulted from a 20 basis point decline in the rates paid on interest-bearing liabilities. Average interest-bearing liabilities were $108.7 million with an average cost of 0.37% in 2013, compared to $106.7 million and 0.57%, respectively in 2012.

Interest expense on deposits totaled $354,196 for the year ended December 31, 2013 compared to $520,732 for the year ended December 31, 2012. Average interest-bearing deposits were $97.6 million with an average cost of 0.36% for the year ended December 31, 2013, compared to $95.4 million and 0.55%, respectively for the year ended December 31, 2012. The decrease in cost resulted from decreases in rates paid on deposits due the continued declining interest rate environment in 2013.

Average Balances, Yields and Rates

The following table presents average earning assets and interest-bearing liabilities, net interest income and margin, and weighted average yields and rates on earning assets and interest-bearing liabilities for the years ended December 31, 2014 and 2013. Yields and rates are derived by dividing income or expense by the average balance of the corresponding asset or liability.

	For the Years Ended December 31,					
	2014			2013		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Interest-earning assets:						
Loans	$ 119,377,513	$ 5,697,607	4.77%	$ 110,006,824	$ 5,393,003	4.90%
Securities	15,794,943	422,565	2.68%	18,273,443	454,574	2.49%
Interest-bearing deposits	5,706,722	20,404	0.36%	8,984,497	44,004	0.49%
Total interest-earning assets	140,879,178	6,140,576	4.36%	137,264,764	5,891,581	4.29%
Noninterest-earning assets	9,559,510			9,154,724		
TOTAL ASSETS	$ 150,438,688			$ 146,419,488		
Interest-bearing liabilities:						
Demand, money market and savings deposits	$ 56,574,820	108,976	0.19%	$ 55,723,216	112,123	0.20%
Time deposits	39,377,343	222,506	0.57%	41,884,013	242,073	0.58%
Borrowed funds	10,413,958	40,816	0.39%	11,111,496	46,757	0.42%
Total interest-bearing liabilities	106,366,121	372,298	0.35%	108,718,725	400,953	0.37%
Noninterest-bearing liabilities:						
Demand, noninterest-bearing deposits	23,352,409			17,758,558		
Other liabilities	1,113,405			928,209		
Stockholders' equity	19,606,753			19,013,996		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 150,438,688			$ 146,419,488		
Net interest spread			4.01%			3.92%
Net interest income/margin		$ 5,768,278	4.09%		$ 5,490,628	4.00%

The following table presents average earning assets and interest-bearing liabilities, net interest income and margin, and weighted average yields and rates on earning assets and interest-bearing liabilities for the year ended December 31, 2013 and December 31, 2012. Yields and rates are derived by dividing income or expense by the average balance of the corresponding asset or liability.

	For the Years Ended December 31,					
	2013			2012		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Interest-earning assets:						
Loans	$ 110,006,824	$ 5,393,003	4.90%	$ 105,015,584	$ 5,469,603	5.21%
Securities	18,273,443	454,574	2.49%	17,998,877	500,533	2.78%
Interest-bearing deposits	8,984,497	44,004	0.49%	7,628,456	46,574	0.61%
Total interest-earning assets	137,264,764	5,891,581	4.29%	130,642,917	6,016,710	4.61%
Noninterest-earning assets	9,154,724			9,470,509		
TOTAL ASSETS	$ 146,419,488			$ 140,113,426		
Interest-bearing liabilities:						
Demand, money market and savings deposits	$ 55,723,216	112,123	0.20%	$ 50,888,604	150,839	0.30%
Time deposits	41,884,013	242,073	0.58%	44,480,192	369,893	0.83%
Borrowed funds	11,111,496	46,757	0.42%	11,287,260	89,202	0.79%
Total interest-bearing liabilities	108,718,725	400,953	0.37%	106,656,056	609,934	0.57%
Noninterest-bearing liabilities:						
Demand, noninterest-bearing deposits	17,758,558			14,746,987		
Other liabilities	928,209			724,346		
Stockholders' equity	19,013,996			17,986,037		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 146,419,488			$ 140,113,426		
Net interest spread			3.92%			4.03%
Net interest income/margin		$ 5,490,628	4.00%		$ 5,406,776	4.14%

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing rates and changing volume. The table below shows the effect varying levels of earning assets and interest-bearing liabilities and associated yields and rates had on net interest income for the year ended December 31, 2014 as compared to the year ended December 31, 2013 and for the year ended December 31, 2013 as compared to the year ended December 31, 2012. Changes in rate/volume were allocated to both in their proportions to the absolute value of each.

	Changes in Net Interest Income					
	For the Years Ended December 31, 2014 vs. 2013 Increase (Decrease) Due to			For the Years Ended December 31, 2013 vs. 2012 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest-Earning Assets:						
Loans	$ 441,787	$ (137,183)	$ 304,604	$ 324,570	$ (401,170)	$ (76,600)
Securities	(72,127)	40,118	(32,009)	7,772	(53,731)	(45,959)
Interest-bearing deposits	(13,565)	(10,035)	(23,600)	22,969	(25,539)	(2,570)
Total interest-earning assets	356,095	(107,100)	248,995	355,311	(480,440)	(125,129)
Interest-Bearing Liabilities:						
Demand, money market and savings deposits	1,752	(4,899)	(3,147)	16,231	(54,947)	(38,716)
Time deposits	(14,252)	(5,315)	(19,567)	(20,540)	(107,280)	(127,820)
Borrowed funds	(2,840)	(3,101)	(5,941)	(1,368)	(41,077)	(42,445)
Total interest-bearing liabilities	(15,340)	(13,315)	(28,655)	(5,677)	(203,304)	(208,981)
Change in net interest income	$ 371,435	$ (93,785)	$ 277,650	$ 360,988	$ (277,136)	$ 83,852

Provision for Loan Losses

The provision for loan losses is the charge to operating income that we believe to be necessary to maintain the allowance for loan losses at an adequate level. The amount charged to the provision is based on a review of past-due loans and delinquency trends, actual losses, classified and criticized loans, loan portfolio growth, concentrations of credit, economic conditions, historical charge-off activity and internal credit risk ratings. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions as more information becomes available or economic conditions change.

At the end of each quarter or more often, if necessary, we analyze the collectability of our loans and accordingly adjust the allowance for loan losses to an appropriate level. The allowance for loan losses covers estimated credit losses on individually evaluated loans that are determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan portfolio.

The provision for loan losses was $200,000 and $220,000 for the years ended December 31, 2014 and 2013, respectively. Loan charge-offs and recoveries are charged or credited directly to the allowance. The provision for loan losses was $220,000, and $640,000 for the years ended December 31, 2013 and 2012, respectively. See "Balance Sheet Review – Loans and Allowance for Loan Losses."

Other Income

Comparison of the years ended December 31, 2014 and December 31, 2013

Other income for the year ended December 31, 2014 was $1.3 million, a decrease of $57,100, or 4%, compared to $1.3 million in 2013. The largest component of this decrease was a decrease in mortgage origination income of $119,339 offset by an increase in debit card interchange income of $35,525. Mortgage origination income varies year to year based on the current mortgage interest rates available and during 2014 we saw increases in rates which negatively impacted our mortgage activity. In addition, we recorded $21,376 of losses from the sale of securities available for sale for the year ended December 31, 2013 compared to no gains or losses recorded for the year ended December 31, 2014.

Components of other income are shown in the table below.

	Years Ended December 31,	
	2014	2013
Other Income		
Deposit and other service charges	$ 193,737	$ 190,717
Income on bank-owned life insurance	97,290	103,380
Loss on sale of securities	-	(21,376)
Mortgage origination income	714,237	833,576
Debit card interchange income	235,155	199,630
Other	30,058	21,650
Total other income	$ 1,270,477	$ 1,327,577

Comparison of the years ended December 31, 2013 and December 31, 2012

Other income for the year ended December 31, 2013 was $1.3 million, a decrease of $175,560, or 12%, compared to $1.5 million for the year ended December 31, 2012. The largest component of this decrease is the decrease in mortgage origination income of $143,640. As noted above the mortgage origination income is directly related to the mortgage rates available to consumers looking to purchase or refinance one-to-four residential mortgages.

Components of other income are shown in the table below.

	Years Ended December 31,	
	2013	2012
Other Income		
Deposit and other service charges	$ 190,717	$ 193,950
Income on bank-owned life insurance	103,380	114,526
Loss on sale of securities	(21,376)	(4,708)
Mortgage origination income	833,576	977,216
Debit card interchange income	199,630	183,684
Other	21,650	38,469
Total other income	$ 1,327,577	$ 1,503,137

Other Expenses

Comparison of the years ended December 31, 2014 and December 31, 2013

Other expenses were $5.3 million for the year ended December 31, 2014 compared to $5.4 million recorded in 2013, a decrease of $48,471, or 1%. Overall other expenses were flat for the years ended December 31, 2014 and 2013 however there were changes within the categories as shown below. The single most siginficant change was a $190,209 reduction in OREO related expenses as we did not experience significant losses in 2014. This decline was somewhat offset by an increase in data processing and IT fees which increased by $95,521 over the prior year. This increase was due to changes in our core processing contract and increased network monitoring and support costs. The increase in other is not attributable to any single significant item.

Components of other expenses are shown in the table below.

	Year Ended December 31,	
	2014	2013
Other Expenses		
Salaries and benefits	$ 3,030,354	$ 3,044,632
Occupancy and equipment	439,859	420,817
Software expenses	129,964	155,068
Advertising and marketing	138,985	183,171
Data processing and IT fees	249,875	154,354
FDIC Insurance	109,700	99,886
Professional services	262,643	281,726
Debit card expenses	153,512	132,883
Net loss on writedowns and sales of OREO	32,817	223,026
Other	768,014	668,631
Total other expenses	$ 5,315,723	$ 5,364,194

Comparison of the years ended December 31, 2013 and December 31, 2012

Other expenses were $5.4 million for the year ended December 31, 2013 compared to $5.0 million recorded in 2012, an increase of $333,732, or 7%. The following table sets forth information related to the various components of other expenses for each year. Salaries and benefits increased by $136,372 to $3,044,632 in 2013 from $2,908,260 in 2012. This increase is the result of annual raises and the hiring of two additional staff since the prior year. In addition, OREO related expenses increased by $228,821 due to losses and write-downs incurred on two foreclosed properties.

Components of other expenses are shown in the table below.

	Year Ended December 31,	
	2013	2012
Other Expenses		
Salaries and benefits	$ 3,044,632	$ 2,908,260
Occupancy and equipment	420,817	414,692
Software expenses	155,068	148,979
Advertising and marketing	183,171	143,327
Data processing and IT fees	154,354	136,629
FDIC Insurance	99,886	116,677
Professional services	281,726	324,821
Debit card expenses	132,883	104,771
Net loss (gain) on writedowns and sales of OREO	223,026	(5,795)
Other	668,631	738,101
Total other expenses	$ 5,364,194	$ 5,030,462

BALANCE SHEET REVIEW

At December 31, 2014, assets totaled $154.2 million, an increase of $9.5 million, or 6.6%, from $144.7 million at December 31, 2013. The increase was comprised principally of an increase in net loans of $11.2 million net of a decrease in securities of $2.0 million. Total liabilities increased by $8.6 million, or 6.9%, to $134.0 million at December 31, 2014 from $125.4 million at December 31, 2013. The increase in liabilities was comprised of an increase in total deposits of $6.7 million and an increase in advances from the Federal Home Loan Bank of $1.3 million.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and due from banks. These are short-term, highly liquid balances that are used to fund operations, including projected funding of loans. These balances totaled $4.0 million at December 31, 2014 as compared to $3.7 million at December 31, 2013. In addition, the Bank has investments in interest-bearing deposits at other banks totaling $6.1 million at December 31, 2014, a decrease of $880,102 as compared to December 31, 2013. Included in interest-bearing deposits at December 31, 2014 are $5.0 million in deposits that mature overnight.

Investment Securities

At December 31, 2014, investment securities totaled $14.9 million and represented approximately 10% of earning assets compared to a total of $16.9 million or 12% of earning assets at December 31, 2013. We invest primarily in U.S. Government sponsored enterprise mortgage-backed securities, municipal bonds, mortgage-backed securities issued by the Small Business Administration, and corporate bonds. All of our investment securities are classified as available for sale and are carried at fair value.

Contractual maturities and yields on our investment securities at December 31, 2014 are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within one year		After one but within five years		After five but within ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Mortgage-backed securities:										
GSE residential	$ -	-	$ -	-	$ -	-	$ 4,546,346	4.32%	$ 4,546,346	4.32%
Small Business Administration	-	-	-	-	1,738,557	3.24%	826,126	4.08%	2,564,683	3.51%
Private label - residential	-	-	117,062	5.00%	-	-	1,207,700	4.12%	1,324,762	4.19%
Corporate bonds	1,037,360	5.38%	551,115	5.75%	-	-	-	-	1,588,475	5.51%
State and municipal securities	-	-	1,718,384	3.36%	2,364,773	4.64%	792,239	4.88%	4,875,397	4.23%
Total	$ 1,037,360	5.38%	$ 2,386,561	4.00%	$ 4,103,331	4.05%	$ 7,372,411	4.32%	$ 14,899,663	4.26%

The amortized cost and fair value of our investment securities, all of which are classified as available for sale, at December 31, 2014 and 2013 are shown in the following table.

	December 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
State and municipal securities	$ 4,696,349	$ 4,875,397	$ 4,764,937	$ 4,830,217
Mortgage-backed securities:				
GSE residential	4,585,735	4,546,346	4,960,362	4,854,661
Small Business Administration	2,527,437	2,564,683	3,083,081	3,112,387
Private label - residential	1,249,688	1,324,762	1,844,581	1,923,374
Corporate bonds	1,517,248	1,588,475	1,533,306	1,643,520
U.S. government agency securities	-	-	507,722	511,000
Total	$ 14,576,457	$ 14,899,663	$ 16,693,989	$ 16,875,159

Loans

Outstanding loans represent the largest component of earning assets. At December 31, 2014, outstanding loans totaled $122.9 million, an increase of $11.1 million, or 10%, over the $111.8 million reported at December 31, 2013. At December 31, 2013, outstanding loans increased $6.5 million, or 6.2% over the amount reported at December 31, 2012. The following table summarizes the composition of the loan portfolio at December 31, 2014 and 2013

	December 31, 2014		December 31, 2013	
	Amount	% of Total	Amount	% of Total
Real Estate:				
Commercial other	$ 34,922,439	28.4%	$ 32,209,826	28.0%
Construction and land development	14,934,636	12.1%	14,164,671	12.3%
1-4 family residential	27,948,163	22.7%	24,511,927	21.3%
Commercial--owner occupied	28,650,192	23.3%	29,068,203	25.3%
Total real estate loans	106,455,430	86.6%	99,954,627	87.0%
Commercial	13,226,924	10.8%	7,898,002	6.9%
Consumer	3,309,487	2.7%	7,027,777	6.1%
Total commercial and consumer loans	16,536,411	13.4%	14,925,779	13.0%
Total loans	$ 122,991,841	100.0%	$ 114,880,406	100.0%

A majority of our loans are to business owners of many types. We make loans to small businesses for real estate projects and for a variety of other business purposes required by our customer base.

Our credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Owner-occupied and commercial real estate loans include loans to finance commercial real estate properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale or lease of the subject property. Owner-occupied and commercial real estate loans typically require a loan to value ratio of not greater than 85% and vary in terms depending on the creditworthiness of the borrower.

Residential real estate and home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Pricing for residential mortgages and home equity loans is subject to market conditions, the applicant's qualified credit bureau score, and the collateral's loan to value ratio. Residential mortgages have amortization terms up to but not longer than 30 years and home equity loans generally have maturities up to 15 years.

Other consumer loans include installment loans, student loans and overdrafts. The majority of these loans are secured or guaranteed by the U.S. Government in the case of the student loans.

Credit Quality

There are risks inherent in making loans, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, and risks resulting from uncertainties about the future value of collateral on loans. Our written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with additional credit department approval for the majority of new loan balances. In addition, to address

ongoing risks, we have developed policies and procedures to evaluate the overall quality of our credit portfolio and to timely identify potential problem loans.

The accrual of interest on loans is generally discontinued when the contractual payment of principal or interest has become 90 days past due or when we have serious doubts about further collectability of principal or interest, even though the loan is currently performing. When a loan is placed on non-accrual status, unpaid interest credited to income is reversed. Interest received on non-accrual loans is typically applied against principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The following table summarizes non-performing assets and performing troubled debt restructurings which were in accruing status as of December 31, 2014 and 2013.

	December 31, 2014	December 31, 2013
Loans past due 90 days or more and still accruing interest (4)	$ 1,226,398	$ 1,215,154
Non-accrual loans	0	584,153
Total non-performing loans (1) (4)	1,226,398	1,799,307
Other real estate owned	581,926	442,278
Total non-performing assets (2)	1,808,324	2,241,585
Performing troubled debt restructurings (TDRs) (3)	2,519,579	2,258,167
Total non-performing assets and performing TDRs (4)	$ 4,327,903	$ 4,499,752
Non-performing loans as a percentage of gross loans	1.00%	1.61%
Non-performing assets as a percentage of total assets	1.17%	1.55%
Non-performing assets and performing TDRs as a percentage of total assets	2.81%	3.11%
Ratio of allowance to non-performing loans at end of period	153.48%	110.47%
Ratio of allowance to non-performing assets at end of period	104.09%	88.68%
Allowance for loan losses as a percentage of gross loans	1.53%	1.78%

(1) Non-performing loans are comprised of (i) loans that have a non-accrual status; (ii) accruing loans that are 90 days or more past due; and (iii) non-performing troubled debt restructured loans.
(2) Non-performing assets are comprised of non-performing loans and other real estate owned.
(3) Performing troubled debt restructurings are accruing loans that have been restructured in troubled debt restructurings and are in compliance with their modified terms.
(4) Loans past due 90 days or more, non-performing loans and non-performig assets include student loans totaling $441,255 and $698,061, respectively, which are 98% guaranteed by the U.S. Government.

While not considered non-performing, our performing troubled debt restructurings are closely monitored as they consist of loans that have been modified where the borrower is experiencing financial difficulty. Troubled debt restructurings may be deemed to have a higher risk of loss than loans which have not been restructured.

Management continues to monitor and explore potential options and remedial actions to recover our investment in non-performing loans. The non-performing loans identified above are included in the total of our classified loans. The total of classified loans at December 31, 2014 was $5.8 million and at December 31, 2013 was $4.4 million.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that the Bank believes is sufficient to absorb probable loan and lease losses inherent in the loan portfolio. The allowance is increased by charges to earnings in the form of provisions for loan losses and recoveries of prior loans charged off, and is decreased by loans charged off. The provision is calculated to bring the allowance to a level which, according to a systematic process of measurement, reflects the amount management estimates is needed to absorb probable losses within the portfolio. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Bank's control, including, among other things, the performance of the Bank's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Management performs quarterly assessments to determine the appropriate level of allowance for loan and leases losses. Differences between actual loan loss experience and estimates are reflected through adjustments that are made by either increasing or decreasing the allowance based upon current measurement criteria. The specific components of the allowance include allocations to individual impaired credits and allocations to the remaining general pools of loans that have not been deemed impaired. Management's general reserve allocations are based on judgment of qualitative and quantitative factors about both macro and micro economic conditions reflected within the portfolio of loans and the economy as a whole. Factors considered in this evaluation include, but are not necessarily limited to, probable losses from loan and other credit arrangements, general qualitative conditions, changes in credit concentrations or pledged collateral, historical loan loss experience, and trends in portfolio volume, maturities, composition, delinquencies, and nonaccruals. Historical loss rates for each pool of loans are adjusted by environmental factors to estimate the amount of reserve needed by class of loan. While management has allocated the allowance for loan losses to various portfolio segments, the entire allowance is available for use against any type of loan loss deemed appropriate by management.

The following table sets forth a summary of the changes in the allowance for loan losses for the years ended December 31, 2014 and 2013.

	As of or for the Years Ended December 31,	
	2014	2013
Balance at the beginning of year	$ 1,987,774	$ 1,960,931
Chargeoffs:		
Real estate	(315,000)	(279,980)
Commercial	(24,262)	-
Consumer	-	(3,362)
Total chargeoffs	(339,262)	(283,342)
Recoveries:		
Real estate	33,714	89,627
Consumer	-	558
Total recoveries	33,714	90,185
Net charge-offs	(305,548)	(193,157)
Provision charged to operations	200,000	220,000
Balance, end of period	$ 1,882,226	$ 1,987,774
Allowance for loan losses as a percentage of gross loans	1.53 %	1.78 %
Net charge-offs to total loans	0.25 %	0.17 %

The following table allocates the allowance for loan losses by loan category at December 31, 2014 and December 31, 2013. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	December 31, 2014		December 31, 2013	
	Amount	% of Total	Amount	% of Total
Real Estate	$ 1,529,210	81.24%	$ 1,573,625	79.17%
Commercial	161,620	8.59%	74,835	3.76%
Consumer	9,543	0.51%	15,629	0.79%
Unallocated	181,853	9.66%	323,685	16.28%
Total allowance	$ 1,882,226	100.00%	$ 1,987,774	100.00%

The following table summarizes loan maturities, by type, at December 31, 2014 and December 31, 2013. The information in the table is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewals of such loans are subject to review and credit approval, as well as modification of terms upon their maturity. Actual repayments of loans may differ from maturities reflected below depending on prime rate movement and because borrowers have the right to prepay obligations with or without prepayment penalties.

	As of December 31, 2014			
	One year or less	After one but within five years	After five years	Total
Real Estate:				
Construction and land development	$ 5,321,988	$ 9,612,648	$ -	$ 14,934,636
Residential	1,838,180	13,136,438	12,973,545	27,948,163
Commercial - owned occupied	2,092,278	23,351,027	3,206,887	28,650,192
Commercial - other	7,067,663	20,096,897	7,757,879	34,922,439
Total real estate loans	16,320,109	66,197,010	23,938,311	106,455,430
Commercial	6,646,340	5,373,250	1,207,334	13,226,924
Consumer	266,957	917,499	2,125,031	3,309,487
Total loans	$ 23,233,406	$ 72,487,759	$ 27,270,676	$ 122,991,841
Loans maturing after one year with:				
Fixed interest rates				$ 71,572,951
Floating interest rates				$ 28,185,484

	As of December 31, 2013			
	One year or less	After one but within five years	After five years	Total
Real Estate:				
Construction and land development	$ 6,322,132	$ 7,079,689	$ 762,850	$ 14,164,671
Residential	1,559,453	11,623,198	11,329,276	24,511,927
Commercial - owned occupied	1,459,839	25,415,626	2,192,738	29,068,203
Commercial - other	2,768,183	24,259,835	5,181,808	32,209,826
Total real estate loans	12,109,607	68,378,348	19,466,672	99,954,627
Commercial	2,414,365	4,763,765	719,872	7,898,002
Consumer	138,563	1,262,688	2,626,526	4,027,777
Total loans	$ 14,662,535	$ 74,404,801	$ 22,813,070	$ 111,880,406
Loans maturing after one year with:				
Fixed interest rates				$ 73,669,616
Floating interest rates				$ 23,548,255

Deposits

Deposits are our primary source of funds for loans and investments. Total deposits were $122.9 million at December 31, 2014, an increase of $6.7 million, or approximately 6%, over the $116.2 million reported at December 31, 2013. At December 31, 2013, deposits decreased $2.9 million, or approximately 2%, from the amount reported at December 31, 2012. The following is a table of average deposits by category at December 31, 2014 and December 31, 2013.

	December 31, 2014		December 31, 2013	
	Amount	Rate	Amount	Rate
Non-interest bearing deposit	$ 23,352,409	-	$ 17,758,558	-
Interest bearing deposits:				
Interest checking	11,439,876	0.06%	12,069,982	0.07%
Money market	42,585,384	0.23%	41,212,281	0.25%
Savings	2,549,560	0.10%	2,440,953	0.10%
Time, less than $100,000	18,634,612	0.68%	17,680,257	0.76%
Time, $100,000 and over	20,742,731	0.46%	24,203,756	0.44%
Total deposits	$ 119,304,572	0.28%	$ 115,365,787	0.31%

Core deposits, which consist of local demand deposits, savings deposits, money market accounts and certificates of deposits of less than $250,000, provide a relatively stable funding source for our lending and investing activities. Our core deposits totaled $102.1 million, or 86% of total deposits, at December 31, 2014 compared to $101.8 million, or 88% of total deposits, at December 31, 2013. Time deposit balances over $250,000 and deposits obtained from outside the market area are not considered core deposits because their retention can be expected to be heavily influenced by rates offered at renewal. We have many shareholders and customers with larger balances, and we monitor the stability of these larger balances, finding them to be relatively stable in nature. At December 31, 2014 the total of deposits above $100,000 totaled $21.0 million. Due to the developed national market for certificates of deposit, we anticipate being able to either renew or replace the deposits obtained outside of the market area when they mature; however, no assurance can be given that we will be able to replace these deposits with the same terms.

The maturity distribution of our time deposits of $100,000 or more at December 31, 2014 is shown in the following table.

	December 31, 2014
Three months or less	$ 4,139,409
Over three through six months	4,690,214
Over six through twelve months	5,007,122
Over twelve months	7,183,033
Total	$ 21,019,778

Other Borrowings

We maintain federal funds lines of credit with correspondent banks to meet short-term liquidity needs. As a member of the FHLB, we have access to borrowings through various FHLB programs. Advances from the FHLB are collateralized by our investment in the common stock of the FHLB and by a blanket lien on our loan portfolio. See "Liquidity and Capital Resources" for additional details of our borrowing arrangements.

The following table outlines our various sources of borrowed funds at or for each of the years ended December 31, 2014 and 2013. The maximum balance represents the highest indebtedness for each category of borrowed funds at any month end during each of the periods shown.

	At or for the periods ended				
	Ending Balance	Period-End Rate	Maximum Balance	Average for the Period	
				Balance	Rate
December 31, 2014:					
FHLB advances	$ 8,040,000	0.35%	$ 11,790,000	$ 8,643,287	0.43%
Federal funds purchased	-	-	55,000	151	1.32%
Repurchase agreements	1,958,324	0.18%	2,755,000	1,770,517	0.20%
December 31, 2013:					
FHLB advances	6,750,000	0.54%	10,750,000	7,836,302	0.51%
Federal funds purchased	-	-	3,240,000	34,173	0.65%
Repurchase agreements	1,301,252	0.19%	11,206,597	3,241,019	0.14%

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. The timing of a significant portion of the investment portfolio maturities is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control. We must maintain adequate liquidity to respond to short-term deposit withdrawals, maturities of short-term borrowings, loan demand, and payment of operating expenses.

At December 31, 2014, our liquid assets, consisting of cash and due from banks and interest-bearing deposits in banks totaled $10.2 million. Investment securities that have not been pledged as security for deposits and other borrowings, classified as available for sale, provide a secondary source of liquidity because they can be converted to cash in a timely manner. These non-pledged securities had a market value of $11.9 million at December 31, 2014. Our ability to raise additional deposits and to borrow funds also serves additional liquidity sources. Our regulatory capital ratios are at levels that support continued leveraging through continued expansion of our deposit base and additional borrowings. We maintain federal funds lines of credit totaling $10.3 million with correspondent banks. Advances under these agreements are unsecured and are limited to terms ranging from 5 to 30 days. These banks have reserved the right to withdraw these lines at their option. We have an approved credit limit of $29.2 million with the FHLB, with $21.2 million unused at December 31, 2014. Further advances from the FHLB are limited to available collateral acceptable to the FHLB which at December 31, 2014, consisted of non-pledged investment securities and pledgeable loan collateral. We also have loan collateral that is pledged for borrowings at the Federal Reserve Bank's Discount Window for varying terms. As of December 31, 2014, this collateral would have provided for short-term borrowings of an additional $4.6 million.

We plan to meet our future cash needs through maturities of loans, maturities and cash flows from investment securities, expansion of our deposit base, and other borrowings.

Stockholders' equity totaled $20.2 million and $19.3 million at December 31, 2014 and December 31, 2013, respectively. The increase in stockholders' equity of $867,610 during the year was due to $1.5 million in net income, exercise of stock options of $66,680, an increase in the unrealized gains in securities available for sale of $142,036 less dividends paid of $794,638.

The Bank, as a South Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to South Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of the Bank. As of December 31, 2014, approximately $1.5 million of retained earnings were available to be paid in dividends without regulatory approval

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2014 and December 31, 2013 that the Bank is well capitalized and meets all capital adequacy requirements to which it is subject, as set forth below:

	December 31, 2014	December 31, 2013	To be considered "Well Capitalized"
Total capital (To risk weighted assets)	17.1%	18.4%	10.0%
Tier 1 capital (To risk weighted assets)	15.8%	17.2%	6.0%
Tier 1 capital (To average assets)	13.0%	12.8%	5.0%

RETURN ON AVERAGE EQUITY AND ASSETS

The following table shows the return on average assets (net income divided by total average assets), return on equity (net income divided by average equity), and the equity to assets ratio (average equity divided by total average assets) for the years ended December 31, 2014 and 2013.

	Years Ended December 31,	
	2014	2013
Earnings Performance Ratios:		
Return on average assets	0.97%	0.78%
Return on average stockholders' equity	7.41%	6.00%
Average equity to average assets	13.03%	12.99%

INTEREST RATE SENSITIVITY

Interest rate sensitivity is defined as the exposure to variability in net interest income resulting from changes in market-based interest rates. Asset/liability management is the process by which we monitor and control the mix, maturities and interest sensitivity of our assets and liabilities. Asset/liability management seeks to optimize net interest income over time while maintaining a balance sheet mix that is prudent with respect to liquidity, capital adequacy and interest rate risk. The absolute level and volatility of interest rates can have a significant impact on our profitability. Interest rate risk management is the process of identifying and managing the potential adverse impact of interest rates movements on our net interest income and on the fair value of our assets and liabilities.

As a part of our measurement of interest rate sensitivity, we use a "gap" analysis, which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given time period. However, since interest rates and yields on various interest sensitive assets and liabilities do not all adjust in the same degree when there is a change in prevailing interest rates (such as prime rate), the traditional gap analysis is only a general indicator of rate sensitivity and net interest income volatility. Also, net interest income may be impacted by other significant factors in a given interest rate environment, including changes in the volume and mix of earning assets and interest-bearing liabilities. Therefore, we also contract with a third-party to assist in the preparation of a rate sensitivity model which applies rate sensitivity measures to assets and liabilities that will reprice within one year at assumed upward and downward shifts in prime rate.

These estimates are used as a guide by management, recognizing that model risk is always present whenever assumptions of the future must be made. Interest sensitivity is monitored and managed by our management and a committee consisting of certain members of management and of our board of directors. We believe that the current level of interest sensitivity is acceptable and manageable considering our business plan, capital level and other factors.

At December 31, 2014, we were liability sensitive at the one-year gap position, as we have more liabilities subject to repricing in the subsequent twelve month period than assets. The following table presents our gap analysis as of December 31, 2014. The difference between rate-sensitive assets and rate sensitive liabilities is shown below as the "period interest-sensitive gap."

	Within three months	After three but within twelve months	After one but within five years	After five years	Total
December 31, 2014:					
Interest-earning assets					
Interest-bearing deposits	$ 5,131,228	$ 513,000	$ 495,000	$ -	$ 6,139,228
Restricted equity securities	492,100	-	-	-	492,100
Loans	44,123,949	15,294,450	60,302,652	4,149,540	123,870,591
Securities available for sale	116,254	1,296,378	9,199,947	4,287,084	14,899,663
Total interest-earning assets	49,863,531	17,103,828	69,997,599	8,436,624	145,401,582
Interest-bearing liabilities					
Interest checking	10,878,287	-	-	-	10,878,287
Money market and savings	46,326,055	-	-	-	46,326,055
Time deposits	6,646,071	14,029,314	18,769,949	-	39,445,334
FHLB advances	1,000,000	6,040,000	1,000,000	-	8,040,000
Repurchase agreements	1,958,324	-	-	-	1,958,324
Total interest-bearing liabilities	66,808,737	20,069,314	19,769,949	-	106,648,000
Period gap	$ (16,945,206)	$ (2,965,486)	$ 50,227,650	$ 8,436,624	$ 38,753,582
Cumulative gap	$ (16,945,206)	$ (19,910,692)	$ 30,316,958	$ 38,753,582	
Cumulative gap to total interest-earning assets	-34.0%	-29.7%	22.1%	26.7%	
December 31, 2013:					
Interest-earning assets					
Interest-bearing deposits	$ 5,763,330	$ 483,000	$ 773,000	$ -	$ 7,019,330
Restricted equity securities	552,600	-	-	-	552,600
Loans	35,648,445	8,902,782	62,388,883	5,237,296	112,177,406
Securities available for sale	6,741	894,511	10,934,260	5,039,647	16,875,159
Total interest-earning assets	41,971,116	10,280,293	74,096,143	10,276,943	136,624,495
Interest-bearing liabilities					
Interest checking	13,584,115	-	-	-	13,584,115
Money market and savings	46,761,917	-	-	-	46,761,917
Time deposits	5,317,916	16,025,077	14,835,639	-	36,178,632
FHLB advances	-	3,750,000	3,000,000	-	6,750,000
Repurchase agreements	1,301,252	-	-	-	1,301,252
Total interest-bearing liabilities	66,965,200	19,775,077	17,835,639	-	104,575,916
Period gap	$ (24,994,084)	$ (9,494,784)	$ 56,260,504	$ 10,276,943	$ 32,048,579
Cumulative gap	$ (24,994,084)	$ (34,488,868)	$ 21,771,636	$ 32,048,579	
Cumulative gap to total interest-earning assets	-59.6%	-66.0%	17.2%	23.5%	

IMPACT OF INFLATION

The assets and liabilities of financial institutions such as ours are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the effects of changes in the general rate of inflation and changing prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, we seek to manage the relationships between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those, which may result from inflation.

Contractual Obligations

We utilize a variety of deposit products and short-term borrowings to supplement our supply of lendable funds, to assist in meeting deposit withdrawal requirements, and to fund growth of interest-earning assets in excess of traditional deposit growth. Brokered certificates of deposit, borrowings from the FHLB, borrowings under correspondent bank lines of credit, and repurchase agreements serve as the primary sources of such funds.

Obligations under non-cancelable operating lease agreements are payable over several years with the longest obligation expiring in 2024. We do not believe that any existing non-cancelable operating lease agreements are likely to materially impact our financial condition or results of operations in an adverse way.

The following table provides payments due by period for obligations under long-term borrowings and operating lease obligations as of December 31, 2014.

	Within One Year	After One but Within Two Years	After Two but Within Three Years	After Three but Within Five Years	After Five Years	Total
Time deposits	$ 20,675,384	$ 10,702,636	$ 2,963,704	$ 5,103,609	$ -	$ 39,445,333
Operating lease obligations	271,036	275,172	279,391	579,827	598,468	2,003,894
Long-term debt	7,040,000	1,000,000				8,040,000
Accrued interest payable	59,242	-	-	-	-	59,242
Total	$ 28,045,662	$ 11,977,808	$ 3,243,095	$ 5,683,436	$ 598,468	$ 49,548,469

RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting standards and pronouncements of a recent nature are discussed in Notes to Consolidated Financial Statements, Note 13 – Regulatory Matters. Other accounting standards that have been issued or proposed by authoritative standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

MANAGEMENT

Executive Officers and Directors of PBSC Financial

The following sets forth information regarding the current directors and executive officers of PBSC Financial. As previously noted, at the effective time of the merger, the board of directors of the surviving entity will consist of the 15 directors of Carolina Alliance in office immediately prior to the effective time of the merger, plus three appointees from the board of directors of PBSC Financial. The three appointees will be Richard H. Sumerel, Larry A. Webb and Marshall E. Franklin. Information regarding the current Carolina Alliance directors is included under "Proposal No. 2 – Carolina Alliance Directors Proposal" beginning on page 97 of this joint proxy statement/offering circular. Additional information regarding the three PBSC Financial director appointees is included under "Proposal No. 2 – PBSC Financial Directors Proposal" beginning on page 102 of this joint proxy statement/offering circular.

Name (Age)	Position with PBSC Financial Corporation
David G. Barnett (55)	Director, President and Chief Executive Officer
Marshall E. Franklin (52)	Director
Daniel P. Hamilton (38)	Director
L. Jackson McConnell, Jr. (48)	Director
Fort M. Oglesby (68)	Director
Joseph M. Pazdan, II (54)	Director
W. Ronald Shaw (52)	Director
James D. Stewart (62)	Senior Market Executive
Laura E. Stille (44)	Director
Richard H. Sumerel (64)	Chairman of the Board of Directors
H. Thomas Warren, III (56)	Chief Financial Officer
David W. Weaver (54)	Chief Credit Officer
Larry A. Webb (61)	Director

Executive Officer Compensation

Set forth below is selected information regarding the compensation arrangements for PBSC Financial's executive officers and members of its board of directors.

Total cash compensation of PBSC Financial's executive officers for the past three years is as follows:

Executive	2014	2013	2012
David Barnett:	$223,340	$211,600	$192,750
James Stewart:	$177,444	$167,600	$153,500
Tommy Warren:	$182,420	$171,100	$155,000
David Weaver:	$189,900	$180,500	$165,000

Employment Agreements and Supplemental Executive Retirement Plan. PBSC Financial has entered into an employment agreements with each of Mssers. Barnett, Stewart, Warren and Weaver. With the exception of the agreement with Mr. Barnett, which has an initial three-year term, each of the agreements has an initial two-year term. All of the employment agreements provide a base salary; incentive or bonus pay based on a percentage of the executive's annual base salary; eligibility to participate in the equity compensation plans of PBSC Financial; participation in other normal and customary benefits generally available to other employees; and payment of certain club dues and assessments. Each of the contracts, which are beyond their initial terms, automatically renews such that the agreement's current terms remains either two or three years on a day-to-day basis, provided neither party provides the other with notice of its intent to cease the automatic renewals for any reason.

PBSC Financial's executive officers also participate in a supplemental executive retirement plan, expenses from which are funded largely through Pinnacle Bank's ownership of life insurance policies covering the lives of each of the four executive officers. Upon the death, disability or retirement of the executive, the supplemental retirement plan will pay to the executive or a designated beneficiary, up to 25% of the executive's final base salary, which would be distributed in equal monthly installments over the course of 15 years, or, in case of death, in a lump sum following receipt of the life insurance benefit by Pinnacle Bank.

Each of the employment agreements and the supplemental executive retirement plan provide for benefits upon a change in control of PBSC Financial or Pinnacle Bank. Under the terms of the employment agreement, if the executive has his employment terminated without cause, experiences a reduction in responsibility or pay, or the employer materially breaches the agreement, he will be eligible to receive one year's base salary plus a payment equal to the average bonus received over the past three years. Pursuant to the supplemental executive retirement plan, following a change in control in PBSC Financial, the executive would be eligible to receive the full 15-year payout of accrued benefits in two lump sums, with the first payment occurring 60 days after the change in control of Pinnacle, and the second payment made on the first business day in January in the year following the change in control of Pinnacle.

It is presently contemplated that each of Messrs. Barnett, Stewart, Warren and Weaver will be eligible to receive payments pursuant to the supplemental employee retirement agreements following the completion of the merger, with such payments described above on page 70. However, because Mssers. Barnett, Stewart and Warren will be entering into new employment agreements with Carolina Alliance as a term of the merger, only Mr. Warren is expected to receive a change of control payment pursuant to the current Pinnacle employment agreements.

Incentive Compensation for Pinnacle's Executive Officers. In addition to the base salaries provided in each of the employment agreements that are subject to annual review and adjustment by the board of directors, incentive compensation for PBSC Financial's executive officers is based upon the board of directors' consideration of multiple factors. These factors include an analysis of market compensation data; the executive's performance compared to PBSC Financial's goals; and the performance of Pinnacle Bank to its peers. Measurement of Pinnacle Bank's performance relative to internal goals and budget results in one component of the executive's incentive compensation, with a second component of the executive's incentive compensation based on Pinnacle Bank's performance compared to its peers. Pinnacle's board of directors annually formulates the performance goals for its executive officers during March.

Director Compensation

Directors receive a fee of $250 for each board meeting attended. Non-employee directors are also eligible to participate in the PBSC Financial Corporation 2005 Stock Incentive Plan, although, at present, no directors hold any options issued pursuant to this plan. Each of PBSC Financial's directors is also covered by director and officer liability insurance, and each is entitled to reimbursement for reasonable out-of-pocket expenses in connection with meeting attendance.

Stock Incentive Plan

In 2005, PBSC Financial created the PBSC Financial Corporation 2005 Stock Incentive Plan to grant to officers, employees and directors of PBSC Financial options to purchase up to 270,000 shares of PBSC Financial common stock, subject to adjustments for changes in capitalization. The number of shares available for issuance under the 2005 Plan may not be increased, other than pursuant to antidilution adjustments, absent shareholder approval. Having received shareholder approval of the 2005 Plan, PBSC Financial may grant either incentive stock options or nonqualified stock options pursuant to the 2005 Plan.

The 2005 Plan is administered by a committee consisting of at least two members of the board of directors. The committee determines the persons who will receive options and the number of shares that will be covered by their options. The committee also determines the periods of time (not exceeding 10 years from the date of grant in the case of an incentive stock option) during which options will be exercisable and determines whether termination of an optionee's employment under various circumstances would terminate options granted under the 2005 Plan to that person.

As of the date hereof, 20,004 options granted under the 2005 Plan were exercised by Messrs. Barnett, Stewart and Weaver on March 27, 2015, with an additional 6,668 options exercised in December 2014. Pursuant to the terms of the merger agreement, the shares obtained pursuant to the exercise of an option award following PBSC Financial's entry into the merger agreement will eligible to be converted to cash consideration prior to any other PBSC Financial shares for purpose of the maximum 20% limitation on cash consideration payable to PBSC Financial shareholders at closing. No other options issued pursuant to the 2005 Plan are outstanding as of April 1, 2015.

Employment Agreements Effective Upon Consummation of the Merger

For a description of Carolina Alliance's employment agreements with Messrs. Barnett, Weaver and Stewart and Carolina Alliance's assumption of Mr. Warren's current employment agreement, see "Interests of Employees and Directors of PBSC Financial in the Merger" on page 68 herein.

PBSC FINANCIAL SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to PBSC Financial with respect to beneficial ownership of PBSC Financial common stock as of April 30, 2015 for (i) each director, (ii) each holder of 5.0% or greater of PBSC Financial common stock, (iii) PBSC Financial's executive officers, and (iv) all executive officers and directors as a group. The third column sets forth information anticipated by PBSC Financial with respect to the beneficial ownership of PBSC Financial common stock, giving effect to the merger.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, to PBSC Financial's knowledge the persons named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned. The number of shares beneficially owned by each person or group as of April 30, 2015 includes shares of common stock that such person or group had the right to acquire on or within 60 days after April 30, 2015, including, but not limited to, upon the exercise of options. For each individual and group included in the table below, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the 1,871,872 shares of common stock outstanding on April 30, 2015.

Name of Beneficial Owner	Number of Shares Owned[1]	Percent of PBSC Financial prior to Merger	Percent of Carolina Alliance after Merger[2]
Executive Officers and Directors			
David G. Barnett	31,318[3]	1.67%	*
Marshall E. Franklin	5,000	*	*
Dan P. Hamilton	150	*	*
L. Jackson McConnell, Jr.	77,000[4]	4.16%	1.08%
Fort M. Oglesby	10,050	*	*
Joseph M. Pazdan, II	7,550	*	*
W. Ronald Shaw	15,000	*	*
James D. Stewart	34,622[5]	1.85%	*
Laura E. Stille	78,750	4.25%	1.11%
Richard H. Sumerel	5,000	*	*
H. Thomas Warren, III	19,035[6]	1.03%	*
David W. Weaver	26,236[7]	1.40%	*
Larry A. Webb	10,050	*	*
Total (13 officers and directors):	**319,761**	**17.08%**	**4.51%**

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* Owns less than 1% of the outstanding shares of PBSC Financial or, on a pro forma basis, of Carolina Alliance.

(1) As noted above, all options issued pursuant to the PBSC Financial Corporation 2005 Stock Incentive Plan have either been exercised or have expired as of April 1, 2015.

(2) These calculations are based on the assumption that each of the PBSC Financial directors and executive officers elects to receive 80% stock consideration and 20% cash consideration upon the consummation of the merger. These calculations further assume that there will be 6,194,280 pro forma total shares of Carolina Alliance common stock outstanding on April 30, 2015, assuming that 1,633,620 shares of

Carolina Alliance common stock are issued in the merger, based on the assumed 80%-20% election of stock consideration and cash consideration.

(3) Mr. Barnett's share amount includes 6,718 shares owned individually, and 24,600 shares owned through the PBSC Financial ESOP.

(4) Mr. McConnell owns 72,204 shares individually, and Mr. McConnell serves as custodian for 2,398 shares held by each of his two children.

(5) Mr. Stewart holds 27,954 shares as part of the PBSC Financial ESOP and 6,668 shares jointly with his spouse.

(6) Mr. Warren holds 6,668 shares jointly with his spouse, and 12,367 shares through the PBSC Financial ESOP.

(7) Mr. Weaver holds 19,568 shares through the PBSC Financial ESOP and 6,668 shares jointly with his spouse.

PINNACLE RELATIONSHIPS AND RELATED TRANSACTIONS

Interests of Management and Others in Certain Transactions

Pinnacle has, and expects in the future to have, banking transactions in the ordinary course of business with certain of its current directors, executive officers and their associates. These transactions can include services provided by affiliates to Pinnacle in the ordinary course of business, including real estate brokerage and leasing activities, as well as the provision of customary banking services to Pinnacle's officers and directors. All loans included in such transactions will be made on substantially the same terms, including interest rates, repayment terms and collateral, as those prevailing for comparable transactions with other persons at the time such loans were made, and will not involve more than the normal risk of collectibility or present other unfavorable features.

Loans made by Pinnacle Bank to directors and executive officers are subject to the requirements of Regulation O of the Board of Governors of the Federal Reserve System. Regulation O requires, among other things, prior approval of the board of directors with any "interested director" not participating, imposes dollar limitations on amounts of certain loans, and prohibits any favorable treatment being extended to any director or executive officer in any of the bank's lending matters. To the best knowledge of the management of Pinnacle, Pinnacle is in compliance with Regulation O.

LEGAL MATTERS

The validity of the shares of Carolina Alliance common stock to be issued in connection with the merger will be passed upon for Carolina Alliance by Nelson Mullins Riley & Scarborough LLP, Greenville, South Carolina. Nelson Mullins Riley & Scarborough LLP will also deliver an opinion concerning federal income tax consequences of the merger.

INDEPENDENT AUDITORS

The financial statements of Carolina Alliance and PBSC Financial, since inception, have been audited by Elliot Davis, LLC, and Mauldin & Jenkins, LLC, respectively, independent auditors, as set forth in their reports appearing herein.

Appendix A

Agreement and Plan of Merger

AGREEMENT AND PLAN OF MERGER

DATED AS OF MARCH 23, 2015

BY AND AMONG

CAROLINA ALLIANCE BANK,

PBSC FINANCIAL CORPORATION

AND

PINNACLE BANK OF SOUTH CAROLINA

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this "Agreement") is dated as of March 23, 2015, by and among Carolina Alliance Bank, a South Carolina state-chartered bank with its principal office in Spartanburg, South Carolina ("Carolina Alliance"), PBSC Financial Corporation, a South Carolina corporation ("PBSC Financial"), and Pinnacle Bank of South Carolina, a South Carolina state-chartered bank with its principal office in Greenville, South Carolina ("Pinnacle Bank" and, together with PBSC Financial, "Pinnacle"). Capitalized terms used in this Agreement and not otherwise defined shall have the meanings ascribed in Article VIII of this Agreement.

RECITALS

WHEREAS, the respective boards of directors of Carolina Alliance, PBSC Financial and Pinnacle Bank have determined that it is in the best interests of their respective companies and their shareholders to consummate the strategic business combination transactions provided for in this Agreement pursuant to which (i) PBSC Financial will, on the terms and subject to the conditions set forth in this Agreement, merge with and into Carolina Alliance (the "PBSC Financial Merger"), so that Carolina Alliance is the surviving entity in the PBSC Financial Merger, with the name of the surviving entity to be Carolina Alliance Bank (sometimes referred to in such capacity as the "Surviving Entity"); and (ii) Pinnacle Bank will, on the terms and subject to the conditions set forth in this Agreement, merge with and into Carolina Alliance (the "Pinnacle Bank Merger," and, together with the PBSC Financial Merger, the "Merger"), so that Carolina Alliance is the surviving entity in the Pinnacle Bank Merger, with the name of the surviving entity to be Carolina Alliance Bank (sometimes referred to in such capacity as the "Surviving Entity");

WHEREAS, the respective boards of directors of Carolina Alliance, PBSC Financial and Pinnacle Bank have unanimously adopted this Agreement and the transactions contemplated hereby, including, the Merger;

WHEREAS, the boards of directors of Carolina Alliance, PBSC Financial and Pinnacle Bank have resolved to recommend that the shareholders of Carolina Alliance, PBSC Financial and Pinnacle Bank, respectively, approve this Agreement and the transactions contemplated hereby, including the Merger;

WHEREAS, as a material inducement and as additional consideration to enter into this Agreement, certain of the directors and Executive Officers of Pinnacle have entered into a support agreement with Carolina Alliance, dated as of the date hereof (each a "Support Agreement" and collectively, the "Support Agreements"), pursuant to which each such person has agreed, among other things, to vote all shares owned by such person in favor of the approval of this Agreement, including the plan of merger contained herein, and the transactions contemplated hereby, including the Merger, upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, for federal income Tax purposes, it is intended that the Merger shall qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended and including the Treasury Regulations promulgated thereunder (the "Code"); and

WHEREAS, the Parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Carolina Alliance, PBSC Financial and Pinnacle Bank agree as follows:

ARTICLE I

THE MERGER

Section 1.01 The Merger.

(a) Subject to the terms and conditions of this Agreement, in accordance with the South Carolina Business Corporation Act (the "SCBCA"), at the Effective Time PBSC Financial shall merge with and into Carolina Alliance. Carolina Alliance, under the name of Carolina Alliance Bank, shall be the Surviving Entity in the PBSC Financial Merger and shall continue its corporate existence under the laws of the State of South Carolina. As of the Effective Time, the separate corporate existence of PBSC Financial shall cease.

(b) Subject to the terms and conditions of this Agreement, in accordance with the SCBCA, at the Effective Time Pinnacle Bank shall merge with and into Carolina Alliance. Carolina Alliance, under the name of Carolina Alliance Bank, shall be the Surviving Entity in the Pinnacle Bank Merger and shall continue its corporate existence under the laws of the State of South Carolina. As of the Effective Time, the separate corporate existence of Pinnacle Bank shall cease.

Section 1.02 Articles of Incorporation and Bylaws. The Articles of Incorporation and Bylaws of the Surviving Entity upon consummation of the Merger shall be the Articles of Incorporation and Bylaws of Carolina Alliance as in effect immediately prior to the Effective Time until otherwise amended or repealed.

Section 1.03 Directors of the Surviving Entity. Prior to the Effective Time, Carolina Alliance shall take all action necessary to expand the board of directors by three directors and appoint three members of the PBSC Financial board of directors to the board of directors of the Surviving Entity (such directors shall be apportioned evenly among Class I, Class II and Class III directors) to be effective as of 12:01 a.m. on the next business day following the Effective Time. Carolina Alliance shall cause each of the three former PBSC Financial directors to be nominated for election by the shareholders to the board of directors of the Surviving Entity at the first annual meeting of shareholders of the Surviving Entity following their appointment to the board of directors of the Surviving Entity. In addition, Carolina Alliance shall cause to be nominated

for election by the shareholders to the board of directors of the Surviving Entity at subsequent annual meetings that number of former PBSC Financial directors, which if elected by such shareholders, shall result in three former PBSC Financial directors serving as directors of the Surviving Entity through the 2020 annual meeting of shareholders of the Surviving Entity. Notwithstanding the fact that Carolina Alliance intends to reduce the size of the board of directors of the Surviving Entity from 18 directors to 15 directors at or prior to the 2017 annual meeting of shareholders of the Surviving Entity, such reduction shall not affect the number of former PBSC Financial directors then serving on the board of directors of the Surviving Entity.

Section 1.04 Execution of Support Agreements. Immediately prior to the execution of this Agreement and as a condition hereto, certain of the directors and Executive Officers of Pinnacle shall have executed and delivered to Carolina Alliance a Support Agreement as a material inducement to Carolina Alliance and as additional consideration to enter into this Agreement.

Section 1.05 Effective Time; Closing.

(a) Subject to the terms and conditions of this Agreement, the Parties will make all such filings as may be required to consummate the Merger as required by applicable Laws. The Merger shall become effective as set forth in the articles of merger (the "Articles of Merger") that shall be filed with the South Carolina Secretary of State and the South Carolina Board of Financial Institutions (the "SCBFI") on or as nearly as practicable to the Closing Date. The "Effective Time" of the Merger shall be the date and time when the Merger becomes effective as set forth in the Articles of Merger, the form of which is attached hereto as Exhibit C.

(b) The closing of the Merger contemplated by this Agreement (the "Closing") shall take place immediately prior to the Effective Time at the offices of Nelson Mullins Riley & Scarborough LLP, 104 S. Main St., Suite 900, Greenville, SC 29601, or such other place or on such other date as the Parties may mutually agree (such date, the "Closing Date"). At the Closing, there shall be delivered to Carolina Alliance and Pinnacle the certificates and other documents required to be delivered under Article VI hereof.

Section 1.06 Additional Actions. If, at any time after the Effective Time, the Surviving Entity shall consider or be advised that any further deeds, documents, assignments or assurances in law or any other acts are necessary or desirable to (i) vest, perfect or confirm, of record or otherwise, in the Surviving Entity its right, title or interest in, to or under any of the rights, properties or assets of PBSC Financial or any of its Subsidiaries, or (ii) otherwise carry out the purposes of this Agreement, Pinnacle and its officers and directors shall be deemed to have granted to Carolina Alliance, and each or either of them, an irrevocable power of attorney to execute and deliver, in such official corporate capacities, all such deeds, assignments or assurances in law or any other acts as are necessary or desirable to (a) vest, perfect or confirm, of record or otherwise, in the Surviving Entity its right, title or interest in, to or under any of the rights, properties or assets of PBSC Financial or any of its Subsidiaries, or (b) otherwise carry out the purposes of this Agreement, and the officers and directors of the Surviving Entity, as applicable, are authorized in the name of Pinnacle or otherwise to take any and all such action.

ARTICLE II

MERGER CONSIDERATION; EXCHANGE PROCEDURES

Section 2.01 Effect on Pinnacle Bank and PBSC Financial Common Stock.

(a) At the Effective Time, in each case subject to Sections 2.01(d) and 2.02, by virtue of the Merger and without any action on the part of the Parties, the following shall occur:

(i) each share of Pinnacle Bank Common Stock issued and outstanding at the Effective Time shall cease to be outstanding and shall be canceled and retired and shall cease to exist; and

(ii) each share of PBSC Financial Common Stock that is issued and outstanding immediately prior to the Effective Time (other than shares of PBSC Financial Common Stock held by a Party or any Subsidiary of a Party to this Agreement (in each case other than shares of PBSC Financial Common Stock held on behalf of third parties or held by any Party as a result of debts previously contracted) or shares of PBSC Financial Common Stock that are owned by PBSC Financial shareholders properly exercising their dissenters' rights pursuant to Chapter 13 of the SCBCA (the "Dissenter Shares")) shall be converted into the right to receive one of the following: (i) cash in the amount of $12.00 less any applicable withholding Taxes (the "Cash Consideration"); (ii) a number of shares of Carolina Alliance Common Stock equal to the Exchange Ratio, plus the Additional Cash Amount (as defined below), if any (the "Stock Consideration"); or (iii) a combination of the Cash Consideration and Stock Consideration in such proportions as requested by a PBSC Financial shareholder, to the extent available after the proration of the total Merger Consideration to 20% Cash Consideration and 80% Stock Consideration (the "Mixed Consideration") (items (i), (ii), or (iii) referred to herein individually as the "Per Share Purchase Price" and collectively as the "Merger Consideration"). The "Exchange Ratio" shall be 1.0909 if the Final Carolina Alliance Stock Price is at or below $12.65. If the Final Carolina Alliance Stock Price is above $12.65, then the Exchange Ratio shall be equal to $13.80 divided by the Final Carolina Alliance Stock Price. If the Final Carolina Alliance Stock Price is below $9.35, then each share of PBSC Financial Common Stock eligible to receive the Stock Consideration will be exchanged for 1.0909 shares of Carolina Alliance Common Stock plus an amount of cash equal to the difference between $10.20 and the product of 1.0909 and the Final Carolina Alliance Stock Price (the "Additional Cash Amount").

(b) If, prior to the Effective Time, the outstanding shares of PBSC Financial Common Stock or the outstanding shares of Carolina Alliance Common Stock or any rights with respect to Carolina Alliance Common Stock pursuant to stock options granted by Carolina Alliance shall have been increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in capitalization, then an appropriate and proportionate adjustment shall be made to the Per Share Purchase Price.

(c) Each share of PBSC Financial Common Stock issued and outstanding immediately prior to the Effective Time and owned by any of the Parties or their respective Subsidiaries (in each case other than shares of Seller Common Stock held on behalf of third

parties or as a result of debts previously contracted) shall, by virtue of the Merger and without any action on the part of the holder thereof, cease to be outstanding, shall be cancelled and retired without payment of any consideration therefore, and shall cease to exist (the "Excluded Shares").

Section 2.02 Election and Proration Procedures.

(a) As promptly as practicable after the Effective Time, but in any event no later than two business days after the Effective Time, an election form (an "Election Form"), together with the transmittal materials described in Section 2.03 below, shall be mailed to each holder of PBSC Financial Common Stock of record at the Effective Time by the exchange agent selected by Carolina Alliance and reasonably acceptable to PBSC Financial (the "Exchange Agent"). PBSC Financial shall provide all information reasonably necessary for the Exchange Agent to perform its obligations as specified herein.

(b) Each Election Form shall entitle the holder of PBSC Financial Common Stock (or the beneficial owner through appropriate and customary documentation and instructions) to elect to receive (i) the Stock Consideration for all of such holder's shares (a "Stock Election"), (ii) the Cash Consideration for all of such holder's shares (a "Cash Election"), (iii) the Mixed Consideration for all of such holder's shares (a "Mixed Election"), or (iv) make no election (a "Non-Election"). Holders of record of PBSC Financial Common Stock who hold such shares as nominees, trustees or in other representative capacity (a "Holder Representative") may submit multiple Election Forms, provided that such Holder Representative certifies that each such Election Form covers all of the shares of PBSC Financial Common Stock held by that Holder Representative for a particular beneficial owner. The shares of PBSC Financial Common Stock as to which a Stock Election has been made (including pursuant to a Mixed Election) are referred to herein as "Stock Election Shares" and the aggregate number thereof is referred to herein as the "Stock Election Number". The shares of PBSC Financial Common Stock as to which a Cash Election has been made (including pursuant to a Mixed Election) are referred to herein as "Cash Election Shares" and the aggregate number thereof is referred to as the "Cash Election Number". Shares of PBSC Financial Common Stock as to which no election has been made (or as to which an Election Form is not properly completed or returned in a timely fashion) are referred to as "Non-Election Shares." For the avoidance of doubt, any holder of Dissenter Shares shall not be deemed to have made a Stock Election, Cash Election or Mixed Election with respect to such Dissenter Shares, and such Dissenter Shares shall not be deemed Stock Election Shares, Cash Election Shares or Non-Election Shares.

(c) To be effective, a properly completed Election Form must be received by the Exchange Agent on or before 4:00 p.m., local time on such date as the Parties may mutually agree (the "Election Deadline"), but in no event shall be later than 45 calendar days following the Effective Time. An election shall have been properly made only if the Exchange Agent shall have actually received a properly completed Election Form by the Election Deadline. An Election Form shall be deemed properly completed only if accompanied by one or more certificates representing all shares of PBSC Financial Common Stock covered by such Election Form, or the guaranteed delivery of such certificates (or customary affidavits and, if required by Carolina Alliance, indemnification regarding the loss or destruction of such certificates), together

with duly completed transmittal materials. For the holders of PBSC Financial Common Stock who make a Non-Election, subject to Section 2.02(e), the Exchange Agent shall have the authority to determine the type of consideration constituting the Per Share Purchase Price to be exchanged for the Non-Election Shares. Any PBSC Financial shareholder may at any time prior to, but not after, the Election Deadline change his or her election by written notice received by the Exchange Agent prior to the Election Deadline accompanied by a properly completed and signed revised Election Form. Any PBSC Financial shareholder may, at any time prior to the Election Deadline, revoke his or her election by written notice received by the Exchange Agent prior to the Election Deadline or by withdrawal prior to the Election Deadline of his or her certificates, or of the guarantee of delivery of such certificates. If a PBSC Financial shareholder either (i) does not submit a properly completed Election Form by the Election Deadline or (ii) revokes its Election Form prior to the Election Deadline but does not submit a new properly executed Election Form prior to the Election Deadline, the shares of PBSC Financial Common Stock held by such PBSC Financial shareholder shall be designated as Non-Election Shares. Subject to the terms of this Agreement and the Election Form, the Exchange Agent shall have reasonable discretion to determine whether any election, revocation or change has been properly made and to disregard immaterial defects in any Election Form, and any good faith decisions of the Exchange Agent regarding such matters shall be binding and conclusive.

(d) Subject to Section 2.02(d)(ii) below, the number of shares of PBSC Financial Common Stock to be converted into the right to receive the Cash Consideration shall be equal to 20% of the number of shares of PBSC Financial Common Stock outstanding immediately prior to the Effective Time (the "Aggregate Cash Limit") and the number of shares of PBSC Financial Common Stock to be converted into the right to receive the Stock Consideration shall be equal to 80% of the number of shares of PBSC Financial Common Stock outstanding immediately prior to the Effective Time (the "Aggregate Stock Limit"). For the avoidance of doubt, the Dissenter Shares shall not be included in the calculation of the Aggregate Cash Limit.

(i) if the Stock Election Number exceeds the Aggregate Stock Limit, then all Cash Election Shares and all Non-Election Shares shall be converted into the right to receive the Cash Consideration, and each Stock Election Share shall be converted into the right to receive (A) the Stock Consideration in respect of that number of Stock Election Shares equal to the product obtained by multiplying (1) the number of Stock Election Shares held by such holder by (2) a fraction, the numerator of which is the Aggregate Stock Limit and the denominator of which is the Stock Election Number and (B) the Cash Consideration for those Stock Election Shares which were not converted into the right to receive Stock Election Shares as a result of the Stock Election Number exceeding the Aggregate Stock Limit;

(ii) if the Cash Election Number exceeds the Aggregate Cash Limit, Carolina Alliance shall have the right, but not the obligation, to accept a number of such Cash Election Shares that is greater than the Aggregate Cash Limit *provided that* such acceptance does not cause the aggregate value of all cash paid to holders of PBSC Financial Common Stock to exceed 60% of the aggregate value of the consideration being paid to holders of PBSC Financial Common Stock (with the shares of Carolina Alliance Common Stock being valued at a per share price equal to their closing price on the Determination Date), *provided further that* to the extent that Carolina Alliance chooses not to exercise such discretion, then all Stock Election Shares and

all Non-Election Shares shall be converted into the right to receive the Stock Consideration, each Option Cash Election Share shall receive the Cash Consideration, and each Cash Election Share that is not an Option Cash Election Share shall be converted into the right to receive (A) the Cash Consideration in respect of that number of Cash Election Shares equal to the product obtained by multiplying (1) the number of Cash Election Shares that are not Option Cash Election Shares held by such holder by (2) a fraction, the numerator of which is the Aggregate Cash Limit (as it may be adjusted upward by Carolina Alliance) and the denominator of which is the Cash Election Number and (B) the Stock Consideration for those Cash Election Shares which were not converted into the right to receive Cash Consideration as a result of the Cash Election Number exceeding the Aggregate Cash Limit; and

(iii) if the Stock Election Number and the Cash Election Number do not exceed the Aggregate Stock Limit and the Aggregate Cash Limit, respectively, then (i) all Cash Election Shares shall be converted into the right to receive the Cash Consideration, (ii) all Stock Election Shares shall be converted into the right to receive the Stock Consideration, and (iii) all Non-Election Shares shall be converted into the right to receive the Cash Consideration and/or the Stock Consideration such that the aggregate number of shares of PBSC Financial Common Stock entitled to receive the Cash Consideration is equal to the Aggregate Cash Limit and the aggregate number of shares of PBSC Financial Common Stock entitled to receive the Stock Consideration is equal to the Aggregate Stock Limit.

Section 2.03 Exchange Procedures.

(a) Promptly after the Effective Time, Carolina Alliance shall deposit with the Exchange Agent, for exchange in accordance with this Section 2.03, the Merger Consideration and cash in an aggregate amount sufficient for payment in lieu of fractional shares of Carolina Alliance Common Stock to which holders of PBSC Financial Common Stock may be entitled pursuant to Section 2.06 (collectively, the "Exchange Fund"). In the event the cash in the Exchange Fund shall be insufficient to fully satisfy all of the payment obligations to be made by the Exchange Agent hereunder (including pursuant to Section 2.06), Carolina Alliance shall promptly make available to the Exchange Agent the amounts so required to satisfy such payment obligations in full. The Exchange Agent shall deliver the Merger Consideration and cash in lieu of any fractional shares of Carolina Alliance Common Stock out of the Exchange Fund. Except as contemplated by this Section 2.03 and Section 2.07, the Exchange Fund will not be used for any other purpose.

(b) Unless different timing is agreed to by Carolina Alliance and Pinnacle, as soon as reasonably practicable after the Effective Time, but in any event no more than two business days after the Effective Time, Carolina Alliance shall cause the Exchange Agent to mail to the former shareholders of PBSC Financial appropriate transmittal materials (which shall specify that delivery shall be effected, and risk of loss and title to the certificates or other instruments theretofore representing shares of PBSC Financial Common Stock shall pass, only upon proper delivery of such certificates or other instruments to the Exchange Agent). In the event of a transfer of ownership of shares of PBSC Financial Common Stock represented by one or more certificates that are not registered in the transfer records of PBSC Financial, the Per Share Purchase Price payable for such shares as provided in Sections 2.01 and 2.02 may be issued to a

transferee if the certificate or certificates representing such shares are delivered to the Exchange Agent, accompanied by all documents required to evidence such transfer and by evidence reasonably satisfactory to the Exchange Agent that such transfer is proper and that any applicable stock transfer taxes have been paid. In the event any certificate representing PBSC Financial Common Stock certificate shall have been lost, mutilated, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen, mutilated, or destroyed and the posting by such person of a bond in such amount as Carolina Alliance may reasonably direct as indemnity against any claim that may be made against it with respect to such certificate, the Exchange Agent shall issue in exchange for such lost, mutilated, stolen, or destroyed certificate the Per Share Purchase Price as provided for in Sections 2.01 and 2.02. The Exchange Agent may establish such other reasonable and customary rules and procedures in connection with its duties as it may deem appropriate. Carolina Alliance shall pay all charges and expenses, including those of the Exchange Agent in connection with the distribution of the Per Share Purchase Price as provided in Sections 2.01 and 2.02. Buyer or its Exchange Agent will maintain a book entry list of Carolina Alliance Common Stock to which each former holder of PBSC Financial Common Stock is entitled. Certificates evidencing Carolina Alliance Common Stock into which PBSC Financial Common Stock has been converted will not be issued.

(c) Unless different timing is agreed to by Carolina Alliance and Pinnacle, after the Effective Time, each holder of shares of PBSC Financial Common Stock (other than Excluded Shares) issued and outstanding at the Effective Time shall surrender the certificate or certificates representing such shares to the Exchange Agent and shall promptly upon surrender thereof receive in exchange therefore the consideration provided in Sections 2.01 and 2.02, without interest, pursuant to this Section 2.03. The certificate or certificates of PBSC Financial Common Stock so surrendered shall be duly endorsed as the Exchange Agent may reasonably require. Carolina Alliance shall not be obligated to deliver the consideration to which any former holder of PBSC Financial Common Stock is entitled as a result of the Merger until such holder surrenders such holder's certificate or certificates for exchange as provided in this Section 2.03. Similarly, no dividends or other distributions in respect of the Carolina Alliance Common Stock shall be paid to any holder of any unsurrendered certificate or certificates until such certificate or certificates (or affidavit of loss in lieu thereof as provided in Section 2.03(b)) are surrendered for exchange as provided in this Section 2.03. Any other provision of this Agreement notwithstanding, neither any Carolina Alliance, PBSC Financial, Pinnacle Bank nor the Exchange Agent shall be liable to any holder of PBSC Financial Common Stock for any amounts paid or properly delivered in good faith to a public official pursuant to any applicable abandoned property, escheat, or similar Law.

(d) Each of Carolina Alliance and the Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of PBSC Financial Common Stock such amounts, if any, as it is required to deduct and withhold with respect to the making of such payment under the Code or any provision of state, local, or foreign Tax Law or by any Taxing Authority or Governmental Authority. To the extent that any amounts are so withheld by Carolina Alliance, the Surviving Entity, or the Exchange Agent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of PBSC Financial Common Stock, as

applicable in respect of which such deduction and withholding was made by Carolina Alliance, the Surviving Entity or the Exchange Agent, as the case may be.

(e) Any portion of the Merger Consideration and cash delivered to the Exchange Agent by Carolina Alliance pursuant to Section 2.03(a) that remains unclaimed by the holder of shares of PBSC Financial Common Stock for six months after the Effective Time (as well as any proceeds from any investment thereof) shall be delivered by the Exchange Agent to Carolina Alliance. Any holder of shares of PBSC Financial Common Stock who has not theretofore complied with Section 2.03(c) shall thereafter look only to Carolina Alliance for the consideration deliverable in respect of each share of PBSC Financial Common Stock such holder holds as determined pursuant to this Agreement without any interest thereon. If outstanding certificates for shares of PBSC Financial Common Stock are not surrendered or the payment for them is not claimed prior to the date on which such shares of Carolina Alliance Common Stock and cash would otherwise escheat to or become the property of any Governmental Authority, the unclaimed items shall, to the extent permitted by abandoned property and any other applicable law, become the property of Carolina Alliance (and to the extent not in its possession shall be delivered to it), free and clear of all claims or interest of any person previously entitled to such property. Neither the Exchange Agent nor any party to this Agreement shall be liable to any holder of stock represented by any certificate for any consideration paid to a Governmental Authority pursuant to applicable abandoned property, escheat or similar laws. Carolina Alliance and the Exchange Agent shall be entitled to rely upon the stock transfer books of PBSC Financial to establish the identity of those persons entitled to receive the consideration specified in this Agreement, which books shall be conclusive with respect thereto. In the event of a dispute with respect to ownership of stock represented by any certificate or certificates, Carolina Alliance and the Exchange Agent shall be entitled to deposit any consideration represented thereby in escrow with an independent third party and thereafter be relieved with respect to any claims thereto.

(f) Adoption of this Agreement by the shareholders of PBSC Financial shall constitute ratification of the appointment of the Exchange Agent.

Section 2.04 Effect on Carolina Alliance Common Stock. At and after the Effective Time, each share of Carolina Alliance Common Stock issued and outstanding immediately prior to the Effective Time shall remain an issued and outstanding share of common stock of Carolina Alliance and shall not be affected by the Merger.

Section 2.05 Rights of Former PBSC Financial Shareholders. At the Effective Time, the stock transfer books of PBSC Financial shall be closed as to holders of PBSC Financial Common Stock and no transfer of PBSC Financial Common Stock by any holder of such shares shall thereafter be made or recognized. Until surrendered for exchange in accordance with the provisions of Section 2.03, each Certificate theretofore representing shares of PBSC Financial Common Stock (other than certificates representing Excluded Shares and Dissenter Shares), shall from and after the Effective Time represent for all purposes only the right to receive the Per Share Purchase Price, without interest, as provided in Article II.

Section 2.06 Fractional Shares. Notwithstanding any other provision of this Agreement, each holder of shares of PBSC Financial Common Stock exchanged pursuant to the

Merger, who would otherwise have been entitled to receive a fraction of a share of Carolina Alliance Common Stock (after taking into account all certificates delivered by such holder), shall receive, in lieu thereof, cash (without interest) in an amount equal to such fractional part of a share of Carolina Alliance Common Stock multiplied by the Cash Consideration. No such holder will be entitled to dividends, voting rights, or any other rights as a shareholder in respect of any fractional shares.

Section 2.07 Dissenting Shareholders. Any holder of shares of PBSC Financial Common Stock who perfects such holder's dissenters' rights in accordance with and as contemplated by Chapter 13 of the SCBCA shall be entitled to receive from the Surviving Entity, in lieu of the Per Share Purchase Price, the value of such shares as to which dissenters' rights have been perfected in cash as determined pursuant to such provision of Law; provided, that no such payment shall be made to any dissenting shareholder unless and until such dissenting shareholder has complied with all applicable provisions of such Law, and surrendered to PBSC Financial the certificate or certificates representing the shares for which payment is being made. In the event that, after the Effective Time, a dissenting shareholder of PBSC Financial fails to perfect, or effectively withdraws or loses such holder's right to appraisal of and payment for such holder's Dissenter Shares, Carolina Alliance or the Surviving Entity shall deliver to such holder of shares of PBSC Financial Common Stock the Cash Consideration (without interest) in respect of such shares upon surrender by such holder of the certificate or certificates representing such shares of PBSC Financial Common Stock held by such holder.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PBSC FINANCIAL

Section 3.01 Making of Representations and Warranties.

(a) On or prior to the date hereof, PBSC Financial shall have delivered to Carolina Alliance a schedule (the "Pinnacle Disclosure Schedule") setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Article III or to one or more covenants contained in Article V; *provided*, *however*, that nothing in the Pinnacle Disclosure Schedule shall be deemed adequate to disclose an exception to a representation or a warranty unless such schedule identifies the exception with sufficient particularity to give Carolina Alliance notice of such exception.

(b) Except as set forth in the Pinnacle Disclosure Schedule, PBSC Financial represents and warrants to Carolina Alliance that the statements contained in this Article III are correct as of the date of this Agreement and will be correct as of the Closing Date (as though made on and as of the Closing Date), except as to any representation or warranty which specifically speaks as of an earlier date (including without limitation representations made as of "the date hereof"), which only need be correct as of such earlier date.

Section 3.02 Organization, Standing and Authority. PBSC Financial is a South Carolina corporation duly organized, validly existing and in good standing under the laws of South Carolina. Pinnacle Bank is a state bank duly organized, validly existing and in good standing under the laws of South Carolina. Each of PBSC Financial and Pinnacle Bank has full power and authority (including all licenses, franchises, permits and other governmental authorizations which are legally required) to own, lease and operate its properties, to engage in the business and activities now conducted by it. Pinnacle Bank's deposits are insured by the FDIC in the manner and to the full extent provided by applicable Law, and all premiums and assessments required to be paid in connection therewith have been paid by Pinnacle Bank when due.

Section 3.03 Capital Stock. The authorized capital stock of PBSC Financial consists of 10,000,000 shares of PBSC Financial Common Stock and 10,000,000 shares of nonvoting common stock. As of the date of this Agreement, there are 1,851,868 shares of PBSC Financial Common Stock outstanding and no shares of nonvoting common stock outstanding. There are no shares of PBSC Financial Common Stock held by PBSC Financial's Subsidiaries. The outstanding shares of PBSC Financial Common Stock are duly authorized and validly issued and fully paid and non-assessable, and have not been issued in violation of nor are they subject to preemptive rights of any PBSC Financial shareholder. Pinnacle Disclosure Schedule 3.03 sets forth the name and address, as reflected on the books and records of PBSC Financial, of each holder of outstanding PBSC Financial Common Stock, and the number of shares held by each such holder. There are no outstanding shares of capital stock of any class, or any options, warrants or other similar rights, convertible or exchangeable securities, "phantom stock" rights, stock appreciation rights, stock based performance units, agreements, arrangements, commitments or understandings to which PBSC Financial is a party, whether or not in writing, of any character relating to the issued or unissued capital stock or other securities of PBSC Financial or any of its Subsidiaries or obligating PBSC Financial or any of its Subsidiaries to issue (whether upon conversion, exchange or otherwise) or sell any share of capital stock of, or other equity interests in or other securities of, PBSC Financial or any of its Subsidiaries other than those listed in Pinnacle Disclosure Schedule 3.03. All shares of PBSC Financial Common Stock subject to issuance as set forth in this Section 3.03 or Pinnacle Disclosure Schedule 3.03 shall, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, be duly authorized, validly issued, fully paid and nonassessable, and not issued in violation of or be subject to preemptive rights in favor of any person. Except as set forth in Pinnacle Disclosure Schedule 3.03, there are no obligations, contingent or otherwise, of PBSC Financial or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of PBSC Financial Common Stock or capital stock of any of PBSC Financial's Subsidiaries or any other securities of PBSC Financial or any of its Subsidiaries or to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any such Subsidiary or any other entity, except as required by Law. Other than the Support Agreements, to PBSC Financial's Knowledge, there are no agreements, arrangements or other understandings with respect to the voting of PBSC Financial's capital stock. All of the outstanding shares of capital stock of each of PBSC Financial's Subsidiaries are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights, and all such shares are owned by PBSC Financial or another Subsidiary of PBSC Financial free and clear of all security interests, liens, claims, pledges, taking actions, agreements, limitations in PBSC Financial's voting rights,

charges or other encumbrances of any nature whatsoever, except as set forth in Pinnacle Disclosure Schedule 3.03. Except as set forth in Pinnacle Disclosure Schedule 3.03, neither PBSC Financial nor any of its Subsidiaries has any trust preferred securities or other similar securities outstanding. Accordingly, immediately prior to the Effective Time, there will be no more than 1,871,872 shares of PBSC Financial Common Stock issued and outstanding on a fully diluted basis.

Section 3.04 Subsidiaries.

(a) (i) Pinnacle Disclosure Schedule 3.04 sets forth a complete and accurate list of all of PBSC Financial's Subsidiaries, including the jurisdiction of organization of each such Subsidiary, (ii) PBSC Financial owns, directly or indirectly, all of the issued and outstanding equity securities of each Subsidiary, (iii) no equity securities of any of PBSC Financial's Subsidiaries are or may become required to be issued (other than to PBSC Financial) by reason of any contractual right or otherwise, (iv) there are no contracts, commitments, understandings or arrangements by which any of such Subsidiaries is or may be bound to sell or otherwise transfer any of its equity securities (other than to PBSC Financial or a wholly-owned Subsidiary of PBSC Financial), (v) there are no contracts, commitments, understandings or arrangements relating to PBSC Financial's rights to vote or to dispose of such securities and (vi) all of the equity securities of each such Subsidiary held by PBSC Financial, directly or indirectly, are validly issued, fully paid and nonassessable, are not subject to preemptive or similar rights and are owned by PBSC Financial free and clear of all Liens.

(b) Except as set forth on Pinnacle Disclosure Schedule 3.04, PBSC Financial does not own (other than in a bona fide fiduciary capacity or in satisfaction of a debt previously contracted) beneficially, directly or indirectly, any equity securities or similar interests of any Person, or any interest in a partnership or joint venture of any kind.

(c) Each of PBSC Financial's Subsidiaries has been duly organized and qualified and is in good standing under the laws of the jurisdiction of its organization and is duly qualified to do business and is in good standing in the jurisdictions where its ownership or leasing of property or the conduct of its business requires it to be so qualified. A complete and accurate list of all such jurisdictions is set forth on Pinnacle Disclosure Schedule 3.04.

Section 3.05 Corporate Power; Minute Books.

(a) PBSC Financial and each of its Subsidiaries has the corporate power and authority to carry on its business as it is now being conducted and to own all of its properties and assets, and each of PBSC Financial and Pinnacle Bank has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the merger transaction contemplated hereby, subject to receipt of all necessary approvals of Governmental Authorities, the Regulatory Approvals and the Requisite PBSC Financial Shareholder Approval (as defined in Section 3.06).

(b) The minute books of PBSC Financial and each of its Subsidiaries contain true, complete and accurate records of all corporate actions taken by shareholders of PBSC Financial and each of its Subsidiaries and the board of the directors of PBSC Financial (including

committees of PBSC Financial's and each Subsidiary's board of directors) and each of its Subsidiaries.

Section 3.06 Corporate Authority. Subject only to the approval of this Agreement by (i) the holders of a majority of the issued and outstanding shares of PBSC Financial Common Stock entitled to vote on the Agreement and the transactions contemplated hereby ("Requisite PBSC Financial Shareholder Approval") and (ii) the holders of a majority of the issued and outstanding shares of Pinnacle Bank Common Stock entitled to vote on the Agreement and the transactions contemplated hereby ("Requisite Pinnacle Bank Shareholder Approval"), this Agreement and the transactions contemplated hereby have been authorized by all necessary corporate action of PBSC Financial and Pinnacle Bank and the respective board of directors of PBSC Financial and Pinnacle Bank on or prior to the date hereof. PBSC Financial's and Pinnacle Bank's boards of directors have directed that this Agreement be submitted to PBSC Financial's and Pinnacle Bank's shareholders, respectively, for approval at a meeting of such shareholders and, except for the receipt of the Requisite PBSC Financial Shareholder Approval in accordance with the SCBCA and PBSC Financial's Articles of Incorporation and Bylaws and the Requisite Pinnacle Bank Shareholder Approval in accordance with the SCBCA and Pinnacle Bank's Articles of Incorporation and Bylaws, no other vote of the shareholders of PBSC Financial or Pinnacle Bank is required by Law, the Articles of Incorporation of PBSC Financial or Pinnacle Bank, the Bylaws of PBSC Financial or Pinnacle Bank or otherwise to approve this Agreement and the transactions contemplated hereby. Each of PBSC Financial and Pinnacle Bank has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery by Carolina Alliance, this Agreement is a valid and legally binding obligation of each of PBSC Financial and Pinnacle Bank, enforceable in accordance with its terms (except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles).

Section 3.07 Regulatory Approvals; No Defaults.

(a) No consents or approvals of, or waivers by, or filings or registrations with, any Governmental Authority or with any third party are required to be made or obtained by PBSC Financial or Pinnacle Bank in connection with the execution, delivery or performance by PBSC Financial and Pinnacle Bank of this Agreement or to consummate the transactions contemplated by this Agreement, except for (i) filings of applications or notices with, and consents, approvals or waivers by the FDIC, the Federal Reserve and the SCBFI; (ii) the Requisite PBSC Financial Shareholder Approval; (iii) the Requisite Pinnacle Bank Shareholder Approval; and (iv) the filing of the Articles of Merger with the Secretary of State of South Carolina and the SCBFI. Each consent, approval or waiver by the FDIC, the Federal Reserve and the SCBFI referred to in clause (i) hereof is a "Regulatory Approval" with respect to the obligations of PBSC Financial and Pinnacle Bank pursuant hereto. As of the date hereof, Pinnacle has no Knowledge of any fact or circumstance regarding its business that would reasonably be anticipated to cause any Regulatory Approval to be withheld or unreasonably delayed.

(b) Subject to receipt, or the making, of the consents, approvals, waivers and filings referred to in Section 3.07(a), and the expiration of related waiting periods, the execution, delivery and performance of this Agreement by PBSC Financial and Pinnacle Bank, and the

consummation of the transactions contemplated hereby in accordance with the terms hereof do not and will not (i) constitute a breach or violation of, or a default under, the respective Articles of Incorporation or Bylaws (or similar governing documents) of PBSC Financial and Pinnacle Bank, (ii) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to PBSC Financial or Pinnacle Bank, or any of their properties or assets, or (iii) violate, conflict with, result in a material breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the properties or assets of PBSC Financial or Pinnacle Bank under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, contract, agreement or other instrument or obligation to which PBSC Financial or Pinnacle Bank is a party, or by which PBSC Financial or Pinnacle Bank or any of their respective properties or assets may be bound or affected.

Section 3.08 Reports; Internal Controls.

(a) PBSC Financial and each of its Subsidiaries have timely filed (including all applicable extensions) all reports, forms, schedules, registrations, statements and other documents, together with any amendments required to be made with respect thereto, that they were required to file since inception with any Governmental Authority and have paid all fees and assessments due and payable in connection therewith. Since inception, other than normal examinations conducted by a Governmental Authority in the regular course of the business of PBSC Financial and its Subsidiaries, no Governmental Authority has notified PBSC Financial that it has initiated any proceeding or, to PBSC Financial's Knowledge, threatened an investigation into the business or operations of PBSC Financial or any of its Subsidiaries. There is no material unresolved violation or exception by any Governmental Authority with respect to any report, form, schedule, registration, statement or other document filed by, or relating to any examinations by any such Governmental Authority of PBSC Financial or any of its Subsidiaries.

(b) The records, systems, controls, data and information of PBSC Financial and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of PBSC Financial or its Subsidiaries or accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would reasonably be expected not to have a Material Adverse Effect on the system of internal accounting controls described in the following sentence. PBSC Financial and its Subsidiaries have devised and maintain a system of internal accounting controls sufficient to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

(c) Since inception, neither PBSC Financial nor any of its Subsidiaries nor, to PBSC Financial's Knowledge, any director, officer, employee, auditor, accountant or representative of PBSC Financial or any of its Subsidiaries has received or otherwise had or obtained Knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of PBSC Financial or any of its Subsidiaries or their respective internal accounting controls, including any material

complaint, allegation, assertion or claim that PBSC Financial or any of its Subsidiaries has engaged in questionable accounting or auditing practices.

Section 3.09 Financial Statements; Undisclosed Liabilities.

(a) PBSC Financial has previously delivered or made available to Carolina Alliance accurate and complete copies of PBSC Financial's (i) audited consolidated financial statements for the years ended December 31, 2014, 2013 and 2012, accompanied by the unqualified audit reports of Mauldin & Jenkins, LLC, independent auditors (collectively, the "PBSC Financial Financial Statements"). Each of the PBSC Financial Financial Statements fairly presents, in all material respects, the financial condition, results of operations and changes in shareholders' equity and cash flows of PBSC Financial for the respective periods or as of the respective dates set forth therein, all in accordance with GAAP, except as may be noted therein.

(b) The audits of PBSC Financial have been conducted in accordance with GAAP.

(c) PBSC Financial has no liability of the nature required to be disclosed in a balance sheet prepared in accordance with GAAP except for liabilities reflected or reserved against in the PBSC Financial Financial Statements and current liabilities incurred in PBSC Financial's Ordinary Course of Business since December 31, 2014 (the "PBSC Financial Balance Sheet Date").

Section 3.10 Absence of Certain Changes or Events. Except as disclosed in Pinnacle Disclosure Schedule 3.10, or as otherwise expressly permitted or expressly contemplated by this Agreement, since the PBSC Financial Balance Sheet Date there has not been (i) any change or development in the business, operations, assets, liabilities, condition (financial or otherwise), results of operations, cash flows or properties of PBSC Financial or any of its Subsidiaries which has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to PBSC Financial or any of its Subsidiaries, and no fact or condition exists which is reasonably likely to cause a Material Adverse Effect with respect to PBSC Financial or any of its Subsidiaries in the future; (ii) any change by PBSC Financial or any of its Subsidiaries in its accounting methods, principles or practices, other than changes required by applicable Law or GAAP or regulatory accounting as concurred in by Pinnacle's independent auditors; (iii) any entry by PBSC Financial or any of its Subsidiaries into any contract or commitment of (A) more than $25,000 or (B) with a term of more than one year, other than purchases or sales of investment securities, and loans and loan commitments, all in the Ordinary Course of Business; (iv) any declaration, setting aside or payment of any dividend or distribution in respect of any capital stock of PBSC Financial or any of its Subsidiaries or any redemption, purchase or other acquisition of any of its securities, other than in the Ordinary Course of Business, provided that that PBSC Financial shall be permitted without notice to Carolina Alliance to pay distributions to holders of PBSC Financial Common Stock of (A) in March or April 2015, an amount not to exceed $450,000 based on PBSC Financial's 2014 earnings, and (B) an amount not to exceed 40% of PBSC Financial's taxable income from January 1, 2015 to the Effective Time; (v) any increase in or establishment of any bonus, insurance, severance, deferred compensation, pension, retirement, profit sharing, stock option (including, without limitation, the granting of stock options, stock appreciation rights, performance awards, or restricted stock awards), stock purchase or other employee benefit plan, or any other increase in

the compensation payable or to become payable to any directors, officers or employees of PBSC Financial or any of its Subsidiaries (other than normal salary adjustments to employees made in the Ordinary Course of Business), or any grant of severance or termination pay, or any contract or arrangement entered into to make or grant any severance or termination pay, any payment of any bonus, or the taking of any action not in the Ordinary Course of Business with respect to the compensation or employment of directors, officers or employees of PBSC Financial or any of its Subsidiaries; (vi) any material election or material changes in existing elections made by PBSC Financial or any of its Subsidiaries for federal or state income tax purposes; (vii) any material change in the credit policies or procedures of PBSC Financial or any of its Subsidiaries, the effect of which was or is to make any such policy or procedure less restrictive in any respect; (viii) any material acquisition or disposition of any assets or properties, or any contract for any such acquisition or disposition entered into other than (A) investment securities in Pinnacle's investment portfolio or (B) loans and loan commitments purchased, sold, made or entered into in the Ordinary Course of Business; or (ix) any material lease of real or personal property entered into, other than in connection with foreclosed property or in the Ordinary Course of Business.

Section 3.11 Legal Proceedings. Except as set forth in Pinnacle Disclosure Schedule 3.11:

(a) There are no civil, criminal, administrative or regulatory actions, suits, demand letters, demands for indemnification, claims, hearings, notices of violation, arbitrations, investigations, orders to show cause, market conduct examinations, notices of non-compliance or other proceedings of any nature pending or, to Pinnacle's Knowledge, threatened against PBSC Financial or any of its Subsidiaries or to which PBSC Financial or any of its Subsidiaries is a party;

(b) Neither PBSC Financial nor any of its Subsidiaries is a party to any, nor are there any pending or, to Pinnacle's Knowledge, threatened, civil, criminal, administrative or regulatory actions, suits, demand letters, claims, hearings, notices of violation, arbitrations, investigations, orders to show cause, market conduct examinations, notices of non-compliance or other proceedings of any nature against PBSC Financial or any of its Subsidiaries in which, to Pinnacle's Knowledge, there is a reasonable probability of any material recovery against or other potentially Material Adverse Effect with respect to PBSC Financial or any of its Subsidiaries or which challenges or would challenge the validity or propriety of the transactions contemplated by this Agreement; and

(c) There is no injunction, order, judgment or decree imposed upon PBSC Financial or any of its Subsidiaries, or the assets of PBSC Financial or any of its Subsidiaries, and neither PBSC Financial nor any of its Subsidiaries has been advised of, or has Knowledge of, the threat of any such action.

Section 3.12 Compliance With Laws.

(a) Except as set forth in Pinnacle Disclosure Schedule 3.12, PBSC Financial and each of its Subsidiaries is, and since inception has been, in compliance in all material respects with all applicable federal, state, local and foreign Laws, judgments, orders or decrees applicable thereto or to the employees conducting such businesses, including, without limitation, Laws

related to data protection or privacy, the USA PATRIOT Act, the Bank Secrecy Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Fair Credit Reporting Act, the Truth in Lending Act and any other Law relating to discriminatory lending, financing or leasing practices, Sections 23A and 23B of the Federal Reserve Act, and the Dodd-Frank Act;

(b) PBSC Financial and each of its Subsidiaries has all permits, licenses, authorizations, orders and approvals of, and have made all filings, applications and registrations with, all Governmental Authorities that are required in order to permit it to own or lease their properties and to conduct their business as presently conducted; all such permits, licenses, certificates of authority, orders and approvals are in full force and effect and, to PBSC Financial's Knowledge, no suspension or cancellation of any of them is threatened; and

(c) Except as set forth in Pinnacle Disclosure Schedule 3.12, neither PBSC Financial nor any of its Subsidiaries has received, since their inception, notification or communication from any Governmental Authority (i) asserting that it is not in compliance with any of the Laws which such Governmental Authority enforces or (ii) threatening to revoke any license, franchise, permit or governmental authorization (nor do any grounds for any of the foregoing exist).

Section 3.13 Material Contracts; Defaults.

(a) Except as disclosed in Pinnacle Disclosure Schedule 3.13, neither PBSC Financial nor any of its Subsidiaries is a party to, bound by or subject to any agreement, contract, arrangement, commitment or understanding (whether written or oral) (i) with respect to the employment of any directors, officers, employees or consultants, (ii) which would entitle any present or former director, officer, employee or agent of PBSC Financial or any of its Subsidiaries to indemnification from PBSC Financial or any of its Subsidiaries, (iii) the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement, or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement, (iv) which grants any right of first refusal, right of first offer or similar right with respect to any material assets or properties of PBSC Financial and/or its Subsidiaries; (v) which provides for payments to be made by PBSC Financial or any of its Subsidiaries upon a change in control thereof; (vi) which provides for the lease of personal property having a value in excess of $25,000 individually or $50,000 in the aggregate; (vii) which relates to capital expenditures and involves future payments in excess of $25,000 individually or $50,000 in the aggregate; (viii) which relates to the disposition or acquisition of assets or any interest in any business enterprise outside the Ordinary Course of Business of Pinnacle; (ix) which is not terminable on 60 days or less notice and involving the payment of more than $25,000 per annum; or (x) which materially restricts the conduct of any business by PBSC Financial or any of its Subsidiaries (collectively, "Pinnacle Material Contracts"). Pinnacle has previously made available to Carolina Alliance true, complete and correct copies of each such Pinnacle Material Contract.

(b) Neither PBSC Financial nor any of its Subsidiaries is in default under any contract, agreement, commitment, arrangement, lease, insurance policy or other instrument, including but not limited to any Pinnacle Material Contract, to which it is a party, by which its assets, business, or operations may be bound or affected, or under which it or its assets, business,

or operations receives benefits, and there has not occurred any event that, with the lapse of time or the giving of notice or both, would constitute such a default. Except to the extent otherwise provided in this Agreement, no power of attorney or similar authorization given directly or indirectly by Pinnacle is currently outstanding.

Section 3.14 Agreements with Regulatory Agencies. Except as set forth in Pinnacle Disclosure Schedule 3.14, neither PBSC Financial nor any of its Subsidiaries is subject to any cease-and-desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is a recipient of any extraordinary supervisory letter from, or is subject to any order or directive by, or has adopted any board resolutions at the request of any Governmental Authority (each, whether or not set forth in Pinnacle Disclosure Schedule 3.14, a "Pinnacle Regulatory Agreement") that restricts, or by its terms will in the future restrict, the conduct of its business or that in any manner relates to its capital adequacy, its credit or risk management policies, its dividend policies, its management, its business or its operations, nor has PBSC Financial or any of its Subsidiaries been advised by any Governmental Authority that it is considering issuing or requesting (or is considering the appropriateness of issuing or requesting) any Pinnacle Regulatory Agreement. To Pinnacle's Knowledge, there are no investigations relating to any material regulatory matters pending before any Governmental Authority with respect to PBSC Financial or any of its Subsidiaries.

Section 3.15 Brokers. Neither Pinnacle nor any of its officers, directors or any of its Subsidiaries has employed any broker or finder or incurred any liability for any broker's fees, commissions or finder's fees in connection with any of the transactions contemplated by this Agreement, except that Pinnacle has engaged, and will pay a fee or commission to, SunTrust Robinson Humphrey, Inc. in accordance with the terms of a letter agreement between SunTrust Robinson Humphrey, Inc. and Pinnacle, a true, complete and correct copy of which has been previously delivered by Pinnacle to Carolina Alliance.

Section 3.16 Employee Benefit Plans.

(a) All benefit and compensation plans, contracts, policies or arrangements (i) covering current or former employees of PBSC Financial or any of its Subsidiaries (the "Pinnacle Employees"), (ii) covering current or former directors of PBSC Financial or any of its Subsidiaries, or (iii) with respect to which PBSC Financial or any of its Subsidiaries has or may have any liability or contingent liability (including liability arising from affiliation under Section 414 of the Code or Section 4001 of ERISA) including, but not limited to, "employee benefit plans" within the meaning of Section 3(3) of ERISA, health/welfare, change in control, fringe benefit, deferred compensation, stock option, stock purchase, stock appreciation rights, stock based, incentive, bonus plans and other policies, plans or arrangements whether or not subject to ERISA (the "Pinnacle Benefit Plans"), are identified and described in Pinnacle Disclosure Schedule 3.16. Neither PBSC Financial nor any of its Subsidiaries has any stated plan, intention or commitment to establish any new company benefit plan or to modify any Pinnacle Benefit Plan (except to the extent required by law).

(b) Pinnacle has provided Carolina Alliance with true and complete copies of all Pinnacle Benefit Plans including, but not limited to, any trust instruments and insurance

contracts forming a part of any Pinnacle Benefit Plans and all amendments thereto, summary plan descriptions and summary of material modifications, IRS Form 5500 (for the three most recently completed plan years), the most recent IRS determination, opinion, notification and advisory letters, with respect thereto and any correspondence from any Regulatory Agency. In addition, any annual and periodic accounting, service contract, fidelity bonds and employee and participant disclosures pertaining to the Pinnacle Benefit Plans have been made available to Carolina Alliance.

(c) All Pinnacle Benefit Plans are in substantial compliance in form and operation with all applicable Laws, including ERISA and the Code. Each Pinnacle Benefit Plan that is intended to be qualified under Section 401(a) of the Code (a "Pinnacle 401(a) Plan") has received a favorable determination or opinion letter from the IRS; Pinnacle has no Knowledge of any circumstance that could reasonably be expected to result in revocation of any such favorable determination or opinion letter or the loss of the qualification of such Pinnacle 401(a) Plan under Section 401(a) of the Code; and to Pinnacle's Knowledge, nothing has occurred that would be expected to result in the Pinnacle 401(a) Plan ceasing to be qualified under Section 401(a) of the Code. To Pinnacle's Knowledge, all Pinnacle Benefit Plans have been administered in accordance with their terms. There is no pending or, to Pinnacle's Knowledge, threatened litigation or regulatory action relating to the Pinnacle Benefit Plans. Neither PBSC Financial nor any of its Subsidiaries has engaged in a transaction with respect to any Pinnacle Benefit Plan, including a Pinnacle 401(a) Plan that could subject PBSC Financial or any of its Subsidiaries to a Tax or penalty under any Law including, but not limited to, Section 4975 of the Code or Section 502(i) of ERISA. No Pinnacle 401(a) Plan has been submitted under or been the subject of an IRS voluntary compliance program submission. There are no audits, investigations, inquiries or proceedings pending or threatened by the IRS or the Department of Labor with respect to any Pinnacle Benefit Plan.

(d) No liability under Subtitle C or D of Title IV of ERISA has been or is expected to be incurred by PBSC Financial or any of its Subsidiaries with respect to any ongoing, frozen or terminated "single employer plan," within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by PBSC Financial, any of its Subsidiaries or any entity which is considered one employer with PBSC Financial or any of its Subsidiaries under Section 4001 of ERISA or Section 414 of the Code (an "ERISA Affiliate"). None of PBSC Financial or any ERISA Affiliate has contributed to (or been obligated to contribute to) a "multiemployer plan" within the meaning of Section 3(37) of ERISA at any time and neither PBSC Financial nor any of its Subsidiaries has incurred, and does not expect to incur, any withdrawal liability with respect to a multiemployer plan under Subtitle E of Title IV of ERISA (regardless of whether based on contributions of an ERISA Affiliate). No notice of a "reportable event," within the meaning of Section 4043 of ERISA, has been required to be filed for any Pinnacle Benefit Plan or by any ERISA Affiliate or will be required to be filed in connection with the transactions contemplated by this Agreement.

(e) All contributions required to be made with respect to all Pinnacle Benefit Plans have been timely made or have been reflected on the PBSC Financial Financial Statements. No Pinnacle Benefit Plan or single-employer plan of an ERISA Affiliate has an "accumulated

funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA, and no ERISA Affiliate has an outstanding funding waiver.

(f) No Pinnacle Benefit Plan provides or has any liability to provide life insurance, medical or other employee welfare benefits to any Pinnacle Employee upon his or her retirement or termination of employment for any reason, except as may be required by Law, and neither PBSC Financial nor any Subsidiary has ever represented or contracted (whether in oral or written form) to any Pinnacle Employee (either individually, or to Pinnacle Employees as a group) that such Pinnacle Employee(s) would be provided with life insurance, medical or other employee welfare benefits, upon their retirement or termination of employment, except to the extent required by Law.

(g) All Pinnacle Benefit Plans that are group health plans have been operated in compliance with the group health plan continuation requirements of Section 4980B of the Code and all other applicable sections of ERISA and the Code. Pinnacle may amend or terminate any such Pinnacle Benefit Plan at any time without incurring any liability thereunder for further benefits coverage at any time after such termination.

(h) Except as otherwise provided for in this Agreement or in an agreement disclosed in Pinnacle Disclosure Schedule Section 5.11, the execution of this Agreement, shareholder approval of this Agreement or consummation of any of the transactions contemplated by this Agreement will not (i) entitle any Pinnacle Employee to severance pay or any increase in severance pay upon any termination of employment after the date hereof, (ii) accelerate the time of payment or vesting (except as required by law) or trigger any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any of the Pinnacle Benefit Plans, (iii) result in any breach or violation of, or a default under, any of the Pinnacle Benefit Plans, (iv) result in any payment that would be a "parachute payment" to a "disqualified individual" as those terms are defined in Section 280G of the Code, without regard to whether such payment is reasonable compensation for personal services performed or to be performed in the future, (v) limit or restrict the right of Pinnacle or, after the consummation of the transactions contemplated hereby, the Surviving Entity or any of its Subsidiaries, to merge, amend or terminate any of the Pinnacle Benefit Plans, or (vi) result in payments under any of the Pinnacle Benefit Plans for which a deduction would be disallowed by reason of Section 280G of the Code.

(i) Each Pinnacle Benefit Plan that is a deferred compensation plan or arrangement is in compliance with Section 409A of the Code, to the extent applicable. All elections made with respect to compensation deferred under an arrangement subject to Section 409A of the Code have been made in accordance with the requirements of Section 409A(a)(4) of the Code, to the extent applicable. Neither PBSC Financial nor any of its Subsidiaries (i) has taken any action, or has failed to take any action, that has resulted or could reasonably be expected to result in the interest and Tax penalties specified in Section 409A(a)(1)(B) of the Code being owed by any participant in a Pinnacle Benefit Plan or (ii) has agreed to reimburse or indemnify any participant in a Pinnacle Benefit Plan for any of the interest and the penalties specified in Section 409A(a)(1)(B) of the Code that may be currently due or triggered in the future.

(j) PBSC Financial and its Subsidiaries have correctly classified all individuals who directly or indirectly perform services for PBSC Financial or any of its Subsidiaries for purposes of each Pinnacle Benefit Plan, ERISA, the Code, unemployment compensation laws, workers' compensation laws and all other applicable Laws.

Section 3.17 Labor Matters.

(a) Neither PBSC Financial nor any of its Subsidiaries is a party to or bound by any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor is there any proceeding pending or, to Pinnacle's Knowledge threatened, asserting that PBSC Financial or any of its Subsidiaries has committed an unfair labor practice (within the meaning of the National Labor Relations Act) or seeking to compel PBSC Financial or any of its Subsidiaries to bargain with any labor organization as to wages or conditions of employment, nor is there any strike, slowdown, walkout, other work stoppage or other labor dispute involving it pending or, to Pinnacle's Knowledge, threatened, nor to Pinnacle's Knowledge are any of its employees seeking to certify a collective bargaining unit or otherwise engaging in other organizational activity.

(b) Each of PBSC Financial and Pinnacle Bank reasonably believes that each of its current independent contractors has been appropriately treated as an independent contractor under applicable Laws.

Section 3.18 Environmental Matters.

(a) Except as set forth in Pinnacle Disclosure Schedule 3.18, and except as would not be expected to have a Material Adverse Effect, to Pinnacle's Knowledge, there has been no release of Hazardous Substances at, on, or under any real property (including buildings or other structures) currently or formerly owned, operated or leased by PBSC Financial or any of its Subsidiaries, that has formed or that could reasonably be expected to form the basis of any Environmental Claim against PBSC Financial or any of its Subsidiaries.

(b) Except as disclosed on Pinnacle Disclosure Schedule 3.18, to Pinnacle's Knowledge, neither PBSC Financial nor its Subsidiaries has acquired, nor is any of them now in the process of acquiring, any real property through foreclosure or deed in lieu of foreclosure which has been contaminated with, or has had any release of, any Hazardous Substance in a manner that violates Environmental Law or requires reporting, investigation, remediation or monitoring under Environmental Law.

(c) Except as disclosed on Pinnacle Disclosure Schedule 3.18, to Pinnacle's Knowledge, neither PBSC Financial nor any of its Subsidiaries has previously been nor is any of them now in material violation of or material noncompliance with applicable Environmental Law with respect to PBSC Financial's or any of its Subsidiaries' ownership or operation of any real property.

(d) To Pinnacle's Knowledge, neither PBSC Financial nor any of its Subsidiaries could be deemed the owner or operator of, or to have participated in the management of, any

Pinnacle Loan Property which has been contaminated with, or has had any release of, any Hazardous Substance in a manner that violates Environmental Law or requires reporting, investigation, remediation or monitoring under Environmental Law.

(e) Neither PBSC Financial nor any of its Subsidiaries has received (i) any written notice, demand letter, or claim alleging any violation of, or liability under, any Environmental Law by PBSC Financial or any of its Subsidiaries or (ii) any written request for information reasonably indicating an investigation or other inquiry by any Government Authority concerning a possible violation of, or liability under, any Environmental Law by PBSC Financial or any of its Subsidiaries.

(f) Neither PBSC Financial nor any of its Subsidiaries has received notice of any Lien or encumbrance having been imposed on property owned, operated or leased by PBSC Financial or its Subsidiaries in connection with any liability or potential liability arising from or related to Environmental Law, and to Pinnacle's Knowledge, there is no action, proceeding, writ, injunction or claim pending or threatened which could result in the imposition of any such Lien or encumbrance on property owned, operated or leased by PBSC Financial or any of its Subsidiaries.

(g) Neither PBSC Financial nor any of its Subsidiaries is, or has been, subject to any order, decree or injunction relating to a violation of or allegation of liability under any Environmental Law.

(h) Except as disclosed on Pinnacle Disclosure Schedule 3.18, and except as would not be expected to have a Material Adverse Effect, to Pinnacle's Knowledge, there are no circumstances or conditions (including the presence of asbestos, underground storage tanks, lead products, polychlorinated biphenyls, prior manufacturing operations, dry-cleaning, or automotive services) involving PBSC Financial, any of its Subsidiaries, or any currently or formerly owned, operated or leased property, that could reasonably be expected pursuant to applicable Environmental Law to (i) result in any claim, liability or investigation against PBSC Financial or any of its Subsidiaries, or (ii) result in any restriction on the ownership, use, or transfer of any such property.

(i) Pinnacle has made available to Carolina Alliance copies of all environmental reports, studies, sampling data, correspondence, filings and other information known to Pinnacle and in its possession relating to environmental conditions at or on any real property (including buildings or other structures) currently owned, operated or leased by PBSC Financial or any of its Subsidiaries.

(j) There is no litigation pending or, to Pinnacle's Knowledge, threatened against PBSC Financial or any of its Subsidiaries, or, to Pinnacle's Knowledge, affecting any property now or formerly owned, used or leased by PBSC Financial or any of its Subsidiaries, before any court, or Governmental Authority (i) for alleged noncompliance with any Environmental Law or (ii) relating to the presence or release into the environment of any Hazardous Substance.

(k) Except as disclosed on Pinnacle Disclosure Schedule 3.18, to Pinnacle's Knowledge, there are no underground storage tanks on, in or under any property currently owned, operated or leased by PBSC Financial or any of its Subsidiaries.

Section 3.19 Tax Matters.

(a) PBSC Financial and each of its Subsidiaries has filed all material Tax Returns that it was required to file under applicable Laws, other than Tax Returns that are not yet due or for which a request for extension was timely filed consistent with requirements of applicable Law. All such Tax Returns were correct and complete in all material respects and have been prepared in substantial compliance with all applicable Laws. Except as set forth in Pinnacle Disclosure Schedule 3.19, all material Taxes due and owing by PBSC Financial or any of its Subsidiaries (whether or not shown on any Tax Return) have been paid other than Taxes that have been reserved or accrued on the balance sheet of Pinnacle or which Pinnacle is contesting in good faith. Except as set forth in Pinnacle Disclosure Schedule 3.19, Pinnacle is not currently the beneficiary of any extension of time within which to file any Tax Return. Since Pinnacle's inception, no claim has been made by any Governmental Authority in a jurisdiction where Pinnacle does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no Liens for Taxes (other than Taxes not yet due and payable) upon any of the assets of PBSC Financial or any of its Subsidiaries.

(b) PBSC Financial and each of its Subsidiaries, as applicable, have withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, shareholder or other third party.

(c) No foreign, federal, state, or local tax audits or administrative or judicial Tax proceedings are currently being conducted or to Pinnacle's Knowledge are pending with respect to PBSC Financial or any of its Subsidiaries. Other than with respect to audits that have already been completed and resolved, neither PBSC Financial nor any of its Subsidiaries has received from any foreign, federal, state, or local taxing authority (including jurisdictions where PBSC Financial and or any of its Subsidiaries have not filed Tax Returns) any (i) written notice indicating an intent to open an audit or other review, (ii) request for information related to Tax matters, or (iii) notice of deficiency or proposed adjustment for any amount of Tax proposed, asserted, or assessed by any taxing authority against PBSC Financial or any of its Subsidiaries.

(d) Pinnacle has made available to Carolina Alliance true and complete copies of the United States federal, state, local, and foreign consolidated income Tax Returns filed with respect to PBSC Financial for taxable periods ended December 31, 2014, 2013 and 2012. Pinnacle has delivered to Carolina Alliance correct and complete copies of all examination reports, and statements of deficiencies assessed against or agreed to by Pinnacle with respect to any Taxes since December 31, 2010. Pinnacle has timely and properly taken such actions in response to and in compliance with any notices that Pinnacle has received from the IRS in respect of information reporting and backup and nonresident withholding as are required by law.

(e) Pinnacle has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(f) Pinnacle has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). Pinnacle has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Code Section 6662. Pinnacle is not a party to or bound by any Tax allocation or sharing agreement. Pinnacle (i) has not been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was PBSC Financial), and (ii) has no liability for the Taxes of any individual, bank, corporation, partnership, association, joint stock company, business trust, limited liability company, or unincorporated organization (other than PBSC Financial) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign Law), as a transferee or successor, by contract, or otherwise.

(g) Pinnacle will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Effective Time as a result of any: (i) change in method of accounting for a taxable period ending on or prior to the Closing Date; (ii) "closing agreement" as described in Code Section 7121 (or any corresponding or similar provision of state, local or foreign income Tax law) executed on or prior to the Closing Date; (iii) intercompany transactions or any excess loss account described in Treasury Regulations under Code Section 1502 (or any corresponding or similar provision of state, local or foreign income Tax Law); (iv) installment sale or open transaction disposition made on or prior to the Closing Date; or (v) prepaid amount received on or prior to the Closing Date.

(h) Pinnacle has not distributed stock of another Person or had its stock distributed by another Person in a transaction that was purported or intended to be governed in whole or in part by Section 355 or Section 361 of the Code.

(i) PBSC Financial has been a validly electing S Corporation within the meaning of Sections 1361 and 1362 of the Code at all times during its existence and will be an S Corporation up to and including the Closing Date. Pinnacle Bank has been a validly electing qualified subchapter S subsidiary within the meaning of Sections 1361 and 1362 of the Code at all times during its existence and will be an qualified subchapter S subsidiary up to and including the Closing Date.

Section 3.20 Investment Securities. Pinnacle has previously provided to Carolina Alliance a true and correct report setting forth as of the PBSC Financial Balance Sheet Date, the investment securities of Pinnacle, reflecting with respect to all such securities, whenever purchased or sold, descriptions thereof, CUSIP numbers, designations as securities "available for sale" or securities "held to maturity," as those terms are used in ASC 320, book values, fair values and coupon rates, and any gain or loss with respect to any investment securities sold during such time period after the PBSC Financial Balance Sheet Date. Except as set forth in Pinnacle Disclosure Schedule 3.20, neither PBSC Financial nor any of its Affiliates has purchased or sold any such securities listed and described thereon as of the date of this Agreement. Neither PBSC Financial nor any of its Affiliates owns, individually or in the aggregate, in excess of 5% of the outstanding equity of any Person including, without limitation,

any savings bank, savings and loan association, savings and loan holding company, credit union, bank or bank holding company, insurance company, mortgage or loan broker or any other financial institution.

Section 3.21 Derivative Transactions.

(a) All Derivative Transactions entered into by PBSC Financial or any of its Subsidiaries or for the account of any of its customers were entered into in accordance with applicable Laws and regulatory policies of any Governmental Authority, and in accordance with the investment, securities, commodities, risk management and other policies, practices and procedures employed by PBSC Financial or any of its Subsidiaries, and were entered into with counterparties believed at the time to be financially responsible and able to understand (either alone or in consultation with its advisers) and to bear the risks of such Derivative Transactions. PBSC Financial and each of its Subsidiaries have duly performed all of their obligations under the Derivative Transactions to the extent that such obligations to perform have accrued, and, to Pinnacle's Knowledge, there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder.

(b) Except as set forth in Pinnacle Disclosure Schedule 3.21, no Derivative Transaction, were it to be a Loan held by PBSC Financial or any of its Subsidiaries, would be classified as "Special Mention," "Substandard," "Doubtful," "Loss," "Classified," "Criticized," "Credit Risk Assets," "Concerned Loans," "Watch List" or words of similar import.

(c) Each Derivative Transaction is listed on Pinnacle Disclosure Schedule 3.21, and the financial position of Pinnacle under or with respect to each has been reflected in the books and records of Pinnacle in accordance with GAAP, and no open exposure of Pinnacle with respect to any such instrument (or with respect to multiple instruments with respect to any single counterparty) exists, except as disclosed on Pinnacle Disclosure Schedule 3.21.

Section 3.22 Regulatory Capitalization. As of the date of its most recent Report of Condition and Income, Pinnacle Bank was "well-capitalized," as such term is defined in the rules and regulations promulgated by the FDIC. Pinnacle Bank is an "eligible depository institution" as defined in 12 C.F.R. § 303.2(r).

Section 3.23 Loans; Nonperforming and Classified Assets.

(a) Each written or oral loan, loan agreement, note or borrowing arrangement (including, without limitation, leases, credit enhancements, commitments, guarantees and interest-bearing assets) (collectively, "Loans") held in Pinnacle's loan portfolio ("Pinnacle Loan") (i) is evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be, (ii) to the extent secured, has been secured by valid Liens which have been perfected and (iii) to Pinnacle's Knowledge, is a legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. Pinnacle has previously provided to Carolina Alliance a report that identifies (x) each Loan that as of December 31, 2014 that was classified as "Special Mention," "Substandard," "Doubtful," "Loss," "Classified," "Criticized,"

"Credit Risk Assets," "Concerned Loans," "Watch List" or words of similar import by Pinnacle or any bank examiner, together with the principal amount of and accrued and unpaid interest on each such Loan and the identity of the borrower thereunder and (y) each asset of Pinnacle that as of December 31, 2014 was classified as other real estate owned ("OREO") and the book value thereof as of December 31, 2014. Set forth in Pinnacle Disclosure Schedule 3.23 is a true and correct copy of Pinnacle's Policy Exception Report as of December 31, 2014.

(b) All currently outstanding Pinnacle Loans were solicited, originated and, currently exist in material compliance with all applicable requirements of Law and Pinnacle's lending policies at the time of origination of such Pinnacle Loans, and the loan documents with respect to each such Pinnacle Loan are complete and correct. There are no oral modifications or amendments or additional agreements related to the Pinnacle Loans that are not reflected in the written records of Pinnacle. All such Pinnacle Loans are owned by Pinnacle free and clear of any Liens, other than as set forth in Pinnacle Disclosure Schedule 3.23. No claims of defense as to the enforcement of any Pinnacle Loan have been asserted in writing against Pinnacle, and Pinnacle has no Knowledge of any acts or omissions which would give rise to any claim or right of rescission, set-off, counterclaim or defense. Except as set forth in Pinnacle Disclosure Schedule 3.23, none of the Pinnacle Loans are presently serviced by third parties, and there is no obligation which could result in any Pinnacle Loan becoming subject to any third party servicing.

(c) Neither PBSC Financial nor any of its Subsidiaries is a party to any agreement or arrangement with (or otherwise obligated to) any Person which obligates Pinnacle to repurchase from any such Person any Loan or other asset of Pinnacle, unless there is a material breach of a representation or covenant by PBSC Financial or its Subsidiaries.

Section 3.24 Allowance for Loan Losses. Pinnacle's allowance for loan losses as reflected in the latest balance sheet included in the PBSC Financial Financial Statements was, in the opinion of management in light of Pinnacle's historical loan loss experience, as of the date thereof, in compliance with Pinnacle's existing methodology for determining the adequacy of its allowance for loan losses as well as the standards established by applicable Governmental Authority, the Financial Accounting Standards Board and GAAP.

Section 3.25 Trust Business; Administration of Fiduciary Accounts. Pinnacle has properly administered all accounts for which it acts as a fiduciary, including, but not limited to, accounts for which it serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor, in accordance with the terms of the governing documents and applicable laws and regulations. Pinnacle has not, nor to Pinnacle's Knowledge, has any of its directors, officers or employees, committed any breach of trust with respect to any fiduciary account and the records for each such fiduciary account are true and correct and accurately reflect the assets of such fiduciary account.

Section 3.26 Investment Management and Related Activities. None of PBSC Financial, any Subsidiary or any of their respective officers or employees is required to be registered, licensed or authorized under the Laws issued by any Governmental Authority as an investment adviser, a broker or dealer, an insurance agency or company, a commodity trading adviser, a commodity pool operator, a futures commission merchant, an introducing broker, a registered

representative or associated person, investment adviser, representative or solicitor, a counseling officer, an insurance agent, a sales person or in any similar capacity with a Governmental Authority.

Section 3.27 Repurchase Agreements. With respect to all agreements pursuant to which PBSC Financial or any of its Subsidiaries has purchased securities subject to an agreement to resell, if any, PBSC Financial or any of its Subsidiaries, as the case may be, has a valid, perfected first lien or security interest in the government securities or other collateral securing the repurchase agreement, and the value of such collateral equals or exceeds the amount of the debt secured thereby.

Section 3.28 Deposit Insurance. The deposits of Pinnacle Bank are insured by the FDIC in accordance with the Federal Deposit Insurance Act ("FDIA") to the full extent permitted by Law, and Pinnacle Bank has paid all premiums and assessments (to the extent due and payable) and filed all reports required by the FDIA. No proceedings for the revocation or termination of such deposit insurance are pending or, to Pinnacle's Knowledge, threatened.

Section 3.29 CRA, Anti-money Laundering and Customer Information Security. Neither PBSC Financial nor any of its Subsidiaries is a party to any agreement with any individual or group regarding Community Reinvestment Act matters and to Pinnacle's Knowledge (because of Pinnacle's Home Mortgage Disclosure Act data for the year ended December 31, 2014, filed with the FDIC, or otherwise), no facts or circumstances exist, which would cause Pinnacle Bank: (i) to be deemed not to be in satisfactory compliance with the Community Reinvestment Act, and the regulations promulgated thereunder, or to be assigned a rating for Community Reinvestment Act purposes by federal or state bank regulators of lower than "satisfactory"; or (ii) to be deemed to be operating in violation of the Bank Secrecy Act and its implementing regulations (31 C.F.R. Part 103), the USA PATRIOT Act, any order issued with respect to anti-money laundering by the U.S. Department of the Treasury's Office of Foreign Assets Control, or any other applicable anti-money laundering statute, rule or regulation; or (iii) to be deemed not to be in satisfactory compliance with the applicable privacy of customer information requirements contained in any federal and state privacy laws and regulations, including, without limitation, in Title V of the Gramm-Leach-Bliley Act of 1999 and regulations promulgated thereunder, as well as the provisions of the information security program adopted by Pinnacle Bank pursuant to 12 C.F.R. Part 364. Furthermore, the board of directors of Pinnacle Bank has adopted and Pinnacle Bank has implemented an anti-money laundering program that contains adequate and appropriate customer identification verification procedures that has not been deemed ineffective by any Governmental Authority and that meets the requirements of Sections 352 and 326 of the USA PATRIOT Act.

Section 3.30 Transactions with Affiliates. Except as set forth in Pinnacle Disclosure Schedule 3.30, there are no outstanding amounts payable to or receivable from, or advances by PBSC Financial or any of its Subsidiaries to, and neither PBSC Financial nor any of its Subsidiaries is otherwise a creditor or debtor to, any director, Executive Officer, 5% or greater shareholder or other Affiliate of PBSC Financial or any of its Subsidiaries, or to Pinnacle's Knowledge, any person, corporation or enterprise controlling, controlled by or under common control with any of the foregoing, other than part of the normal and customary terms of such persons' employment or service as a director with PBSC Financial or any of its Subsidiaries and

other than deposits held by Pinnacle Bank in the Ordinary Course of Business. Except as set forth in Pinnacle Disclosure Schedule 3.30, neither PBSC Financial nor any of its Subsidiaries is a party to any transaction or agreement with any of its respective directors, Executive Officers or other Affiliates. All agreements between Pinnacle and any of its Affiliates comply, to the extent applicable, with Regulation W of the FRB.

Section 3.31 Tangible Properties and Assets.

(a) Pinnacle Disclosure Schedule 3.31 sets forth a true, correct and complete list of all real property owned by PBSC Financial and each of its Subsidiaries. Except as set forth in Pinnacle Disclosure Schedule 3.31, and except for properties and assets disposed of in the Ordinary Course of Business or as permitted by this Agreement, PBSC Financial or Pinnacle Bank has good, valid and marketable title to, valid leasehold interests in or otherwise legally enforceable rights to use all of the real property, personal property and other assets (tangible or intangible), used, occupied and operated or held for use by it in connection with its business as presently conducted in each case, free and clear of any Lien except such Liens that do not materially affect the use of such real property, personal property and other assets or otherwise materially impair business operations at such properties as used on the date hereof, and except for statutory Liens for amounts not yet delinquent.

(b) Pinnacle Disclosure Schedule 3.31 sets forth a true, correct and complete schedule of all leases, subleases, licenses and other agreements under which PBSC Financial or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, real property (the "Pinnacle Leases"). Each of the Pinnacle Leases is valid, binding and in full force and effect and neither PBSC Financial nor any of its Subsidiaries has received a written notice of, and otherwise has no Knowledge of any, material default or termination with respect to any Pinnacle Lease. To Pinnacle's Knowledge, there has not occurred any event and no condition exists that would constitute a termination event or a material breach by PBSC Financial or any of its Subsidiaries of, or material default by PBSC Financial or any of its Subsidiaries in, the performance of any covenant, agreement or condition contained in any Pinnacle Lease. To Pinnacle's Knowledge, no lessor under a Pinnacle Lease is in material breach or default in the performance of any material covenant, agreement or condition contained in such Pinnacle Lease. Except as set forth on Pinnacle Disclosure Schedule 3.31, Pinnacle has not received written notice of any pending or, to Pinnacle's Knowledge, threatened legal, administrative, arbitral or other proceeding, claim, action or governmental or regulatory investigation of any nature with respect to the real property that PBSC Financial or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, including without limitation a pending or threatened taking of any of such real property by eminent domain. PBSC Financial and each of its Subsidiaries has paid all rents and other charges to the extent due under the Pinnacle Leases.

(c) All buildings, structures, fixtures, building systems and equipment, and all components thereof, including the roof, foundation, load-bearing walls and other structural elements thereof, heating, ventilation, air conditioning, mechanical, electrical, plumbing and other building systems, environmental control, remediation and abatement systems, sewer, storm and waste water systems, irrigation and other water distribution systems, parking facilities, fire protection, security and surveillance systems, and telecommunications, computer, wiring and cable installations, included in the owned real property or the subject of the Pinnacle Leases are,

to Pinnacle's Knowledge, in good condition and repair (normal wear and tear excepted) and sufficient for the operation of the business of PBSC Financial and its Subsidiaries.

Section 3.32 Intellectual Property. Pinnacle Disclosure Schedule 3.32 sets forth a true, complete and correct list of all registrations for, and pending applications to register, material Pinnacle Intellectual Property. PBSC Financial or its Subsidiaries owns or has a valid license to use all such Pinnacle Intellectual Property, free and clear of all Liens, royalty or other payment obligations (except for royalties or payments with respect to off-the-shelf Software at standard commercial rates). PBSC Financial or its Subsidiaries owns or has a valid license or other rights to use all of the material Intellectual Property necessary to carry on the business of PBSC Financial and its Subsidiaries as currently conducted. The Pinnacle Intellectual Property owned by Pinnacle, and to Pinnacle's Knowledge, all other Intellectual Property necessary to carry on the business of PBSC Financial and its Subsidiaries, is valid and enforceable and has not been cancelled, forfeited, expired or abandoned, and neither PBSC Financial nor any of its Subsidiaries has received written notice challenging the validity or enforceability of the Pinnacle Intellectual Property. To Pinnacle's Knowledge, the conduct of the business of PBSC Financial or any of its Subsidiaries does not violate, misappropriate or infringe upon the intellectual property rights of any third party, and neither PBSC Financial nor any of its Subsidiaries have received written notice of any third-party claim of an intellectual property rights violation. The consummation of the transactions contemplated hereby will not result in the loss or impairment of the right of PBSC Financial or any of its Subsidiaries to own or use any of Pinnacle Intellectual Property or any other material Intellectual Property necessary to carry on the business..

Section 3.33 Insurance.

(a) Pinnacle Disclosure Schedule 3.33 identifies all of the material insurance policies, binders, or bonds currently maintained by PBSC Financial and its Subsidiaries (the "Pinnacle Insurance Policies"), including the insurer, policy numbers, amount of coverage, effective and termination dates and any pending claims thereunder involving more than $10,000. PBSC Financial and each of its Subsidiaries is insured with reputable insurers against such risks and in such amounts as the management of Pinnacle reasonably has determined to be prudent in accordance with industry practices. All the Pinnacle Insurance Policies are in full force and effect, neither PBSC Financial nor any Subsidiary has received notice of cancellation of any of the Pinnacle Insurance Policies or otherwise has Knowledge that any insurer under any of the Pinnacle Insurance Policies has expressed an intent to cancel any such Pinnacle Insurance Policies, and neither PBSC Financial nor any of its Subsidiaries is in default thereunder and all claims thereunder have been filed in due and timely fashion.

(b) Pinnacle Disclosure Schedule 3.33 sets forth a true, correct and complete description of all bank owned life insurance ("BOLI") owned by PBSC Financial or its Subsidiaries, including the value of its BOLI as of December 31, 2014. The value of such BOLI is and has been fairly and accurately reflected in the most recent balance sheet included in the PBSC Financial Financial Statements in accordance with GAAP. All BOLI is owned solely by Pinnacle, no other Person has any ownership claims with respect to such BOLI or proceeds of insurance derived therefrom and there is no split dollar or similar benefit under Pinnacle's BOLI. Pinnacle does not have any outstanding borrowings secured in whole or part by its BOLI.

Section 3.34 Antitakeover Provisions. No "control share acquisition," "business combination moratorium," "fair price" or other form of antitakeover statute or regulation is applicable to this Agreement and the transactions contemplated hereby.

Section 3.35 Joint Proxy Statement/Offering Circular. As of the date of the Joint Proxy Statement/Offering Circular and the date of the Pinnacle Meeting to which such Joint Proxy Statement/Offering Circular relates, none of the information supplied or to be supplied by Pinnacle for inclusion or incorporation by reference in the Joint Proxy Statement/Offering Circular will contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Section 3.36 Disclosure. The representations and warranties contained in this Article III, when considered as a whole and with the Pinnacle Disclosure Schedules, do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make not misleading the statements and information contained in this Article III.

Section 3.37 No Knowledge of Breach. Pinnacle has no Knowledge of any facts or circumstances that would result in Carolina Alliance being in breach on the date of execution of this Agreement of any representations and warranties of Carolina Alliance set forth in Article IV.

Section 3.38 Fairness Opinion. Prior to the execution of this Agreement, the board of directors of PBSC Financial has received an opinion of SunTrust Robinson Humphrey, Inc., to the effect that, as of the date thereof and based upon and subject to the assumptions, qualifications, limitations and other matters set forth therein, the aggregate Merger Consideration to be received by the holders of shares of PBSC Financial Common Stock (other than Dissenting Shares, shares subject to a Support Agreement, and shares held by PBSC Financial, Carolina Alliance or any of their respective Subsidiaries) in the Merger pursuant to this Agreement is fair, from a financial point of view, to the shareholders of PBSC Financial. A copy of such opinion will be provided to Carolina Alliance for informational purposes only promptly after the execution of this Agreement. Such opinion has not been amended or rescinded as of the date of this Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF CAROLINA ALLIANCE

Section 4.01 Making of Representations and Warranties.

(a) On or prior to the date hereof, Carolina Alliance has delivered to Pinnacle a schedule (the "CAB Disclosure Schedule") setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in this Article IV or to one or more of its covenants contained in Article V; *provided*, *however*, that nothing in the CAB Disclosure Schedule shall be deemed adequate to

disclose an exception to a representation or a warranty unless such schedule identifies the exception with sufficient particularity and give Pinnacle notice of such exception.

(b) Except as set forth in the CAB Disclosure Schedule, Carolina Alliance represents and warrants to Pinnacle that the statements contained in this Article IV are correct as of the date of this Agreement and will be correct as of the Closing Date (as though made on and as of the Closing Date), except as to any representation or warranty which specifically speaks as of an earlier date (including without limitation representations made as of "the date hereof"), which only need be correct as of such earlier date.

Section 4.02 Organization, Standing and Authority. Carolina Alliance is a state bank corporation duly organized, validly existing and in good standing under the laws of South Carolina. Carolina Alliance has full corporate power and authority to carry on its business as now conducted. Carolina Alliance has full power and authority (including all licenses, franchises, permits and other governmental authorizations which are legally required) to own, lease and operate its properties, to engage in the business and activities now conducted by it. Carolina Alliance's deposits are insured by the FDIC in the manner and to the full extent provided by applicable Law, and all premiums and assessments required to be paid in connection therewith have been paid by Carolina Alliance when due.

Section 4.03 Capital Stock. The authorized capital stock of Carolina Alliance consists of 10,000,000 shares of Carolina Alliance Common Stock and 10,000,000 shares of Carolina Alliance Preferred Stock. As of the date of this Agreement, there are 4,560,660 shares of Carolina Alliance Common Stock and 5,000 shares of Series A Senior Non-Cumulative Perpetual Preferred Stock outstanding. There are no shares of Carolina Alliance Common Stock held by Carolina Alliance's Subsidiaries. The outstanding shares of Carolina Alliance Common Stock are duly authorized and validly issued and fully paid and non-assessable, and have not been issued in violation of nor are they subject to preemptive rights of any Carolina Alliance shareholder. There are no outstanding shares of capital stock of any class, or any options, warrants or other similar rights, convertible or exchangeable securities, "phantom stock" rights, stock appreciation rights, stock based performance units, agreements, arrangements, commitments or understandings to which Carolina Alliance is a party, whether or not in writing, of any character relating to the issued or unissued capital stock or other securities of Carolina Alliance or any of Carolina Alliance's Subsidiaries or obligating Carolina Alliance or any of Carolina Alliance's Subsidiaries to issue (whether upon conversion, exchange or otherwise) or sell any share of capital stock of, or other equity interests in or other securities of, Carolina Alliance or any of Carolina Alliance's Subsidiaries other than those listed in CAB Disclosure Schedule Section 4.03. All shares of Carolina Alliance Common Stock subject to issuance as set forth in this Section 4.03 or CAB Disclosure Schedule Section 4.03 shall, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, be duly authorized, validly issued, fully paid and nonassessable, and not issued in violation of or be subject to preemptive rights in favor of any person. Except as set forth in CAB Disclosure Schedule Section 4.03, there are no obligations, contingent or otherwise, of Carolina Alliance or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of Carolina Alliance Common Stock or capital stock of any of its Subsidiaries or any other securities of Carolina Alliance or any of its Subsidiaries or to provide funds to or make any investment (in the

form of a loan, capital contribution or otherwise) in any such Subsidiary or any other entity. There are no agreements, arrangements or other understandings with respect to the voting of Carolina Alliance's capital stock. All of the outstanding shares of capital stock of each of Carolina Alliance's Subsidiaries are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights, and all such shares are owned by Carolina Alliance or another Subsidiary of Carolina Alliance free and clear of all security interests, liens, claims, pledges, taking actions, agreements, limitations in Carolina Alliance's voting rights, charges or other encumbrances of any nature whatsoever. Neither Carolina Alliance or any of its Subsidiaries has any trust preferred securities or other similar securities outstanding.

Section 4.04 Subsidiaries.

(a) (i) CAB Disclosure Schedule Section 4.04 sets forth a complete and accurate list of all of Carolina Alliance's Subsidiaries, including the jurisdiction of organization of each such Subsidiary, (ii) Carolina Alliance owns, directly or indirectly, all of the issued and outstanding equity securities of each Subsidiary, (iii) no equity securities of any of Carolina Alliance's Subsidiaries are or may become required to be issued (other than to Carolina Alliance) by reason of any contractual right or otherwise, (iv) there are no contracts, commitments, understandings or arrangements by which any of such Subsidiaries is or may be bound to sell or otherwise transfer any of its equity securities (other than to Carolina Alliance or a wholly-owned Subsidiary of Carolina Alliance), (v) there are no contracts, commitments, understandings or arrangements relating to Carolina Alliance's rights to vote or to dispose of such securities and (vi) all of the equity securities of each such Subsidiary held by Carolina Alliance, directly or indirectly, are validly issued, fully paid and nonassessable, are not subject to preemptive or similar rights and are owned by Carolina Alliance free and clear of all Liens.

(b) Except as set forth on CAB Disclosure Schedule Section 4.04, Carolina Alliance does not own (other than in a bona fide fiduciary capacity or in satisfaction of a debt previously contracted) beneficially, directly or indirectly, any equity securities or similar interests of any Person, or any interest in a partnership or joint venture of any kind.

(c) Each of Carolina Alliance's Subsidiaries has been duly organized and qualified and is in good standing under the laws of the jurisdiction of its organization and is duly qualified to do business and is in good standing in the jurisdictions where its ownership or leasing of property or the conduct of its business requires it to be so qualified. A complete and accurate list of all such jurisdictions is set forth on CAB Disclosure Schedule Section 4.04.

Section 4.05 Corporate Power; Minute Books.

(a) Carolina Alliance and each of its Subsidiaries has the corporate power and authority to carry on its business as it is now being conducted and to own all of its properties and assets; and Carolina Alliance has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the merger transaction contemplated hereby, subject to receipt of all necessary approvals of Governmental Authorities, the Regulatory Approvals and the Requisite Carolina Alliance Shareholder Approval.

(b) The minute books of Carolina Alliance and each of its Subsidiaries contain true, complete and accurate records of all corporate actions taken by shareholders of Carolina Alliance and each of its Subsidiaries and the board of the directors of Carolina Alliance (including committees of Carolina Alliance's and each Subsidiary's board of directors) and each of its Subsidiaries.

Section 4.06 Corporate Authority. Subject only to the approval of this Agreement by the holders of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding shares of Carolina Alliance Common Stock entitled to vote on the Agreement and the transactions contemplated hereby ("Requisite Carolina Alliance Shareholder Approval"), this Agreement and the transactions contemplated hereby have been authorized by all necessary corporate action of Carolina Alliance and Carolina Alliance's board of directors on or prior to the date hereof. Carolina Alliance's board of directors has directed that this Agreement be submitted to Carolina Alliance's shareholders for approval at a meeting of such shareholders and, except for the receipt of the Requisite Carolina Alliance Shareholder Approval in accordance with the SCBCA and Carolina Alliance's Articles of Incorporation and Bylaws, no other vote of the shareholders of Carolina Alliance is required by Law, the Articles of Incorporation of Carolina Alliance, the Bylaws of Carolina Alliance or otherwise to approve this Agreement and the transactions contemplated hereby. Carolina Alliance has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery by PBSC Financial and Pinnacle Bank, this Agreement is a valid and legally binding obligation of Carolina Alliance, enforceable in accordance with its terms (except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles).

Section 4.07 Regulatory Approvals; No Defaults.

(a) No consents or approvals of, or waivers by, or filings or registrations with, any Governmental Authority or with any third party are required to be made or obtained by Carolina Alliance or any of its Subsidiaries in connection with the execution, delivery or performance by Carolina Alliance of this Agreement or to consummate the transactions contemplated by this Agreement, except for (i) filings of applications or notices with, and consents, approvals or waivers by the FDIC and the SCBFI; (ii) the Requisite Carolina Alliance Shareholder Approval; and (iii) the filing of the Articles of Merger with the South Carolina Secretary of State and the SCBFI. Each consent, approval or waiver by the FDIC and the SCBFI referred to in clause (i) hereof is a "Regulatory Approval" with respect to the obligations of Carolina Alliance pursuant hereto. As of the date hereof, Carolina Alliance has no Knowledge of any fact or circumstance regarding its business that would reasonably be anticipated to cause any Regulatory Approval to be withheld or unreasonably delayed.

(b) Subject to receipt, or the making, of the consents, approvals, waivers and filings referred to in Section 4.07(a), and the expiration of related waiting periods, the execution, delivery and performance of this Agreement by Carolina Alliance, and the consummation of the transactions contemplated hereby in accordance with the terms hereof do not and will not (i) constitute a breach or violation of, or a default under, the Articles of Incorporation or Bylaws (or similar governing documents) of Carolina Alliance, (ii) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to Carolina Alliance, or

any of its properties or assets, or (iii) violate, conflict with, result in a material breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the properties or assets of Carolina Alliance under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, contract, agreement or other instrument or obligation to which Carolina Alliance is a party, or by which it or any of its properties or assets may be bound or affected.

Section 4.08 Reports; Internal Controls.

(a) Carolina Alliance and each of its Subsidiaries have timely filed (including all applicable extensions) all reports, forms, schedules, registrations, statements and other documents, together with any amendments required to be made with respect thereto, that they were required to file since inception with any Governmental Authority and have paid all fees and assessments due and payable in connection therewith. Other than normal examinations conducted by a Governmental Authority in the regular course of the business of Carolina Alliance and its Subsidiaries, since its inception, no Governmental Authority has notified Carolina Alliance that it has initiated any proceeding or, to Carolina Alliance's Knowledge, threatened an investigation into the business or operations of Carolina Alliance or any of its Subsidiaries. There is no material unresolved violation or exception by any Governmental Authority with respect to any report, form, schedule, registration, statement or other document filed by, or relating to any examinations by any such Governmental Authority of Carolina Alliance or any of its Subsidiaries.

(b) The records, systems, controls, data and information of Carolina Alliance and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of Carolina Alliance or its Subsidiaries or accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would reasonably be expected not to have a Material Adverse Effect on the system of internal accounting controls described in the following sentence. Carolina Alliance and its Subsidiaries have devised and maintain a system of internal accounting controls sufficient to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

(c) Since their inception, neither Carolina Alliance nor any of its Subsidiaries nor, to Carolina Alliance's Knowledge, any director, officer, employee, auditor, accountant or representative of Carolina Alliance or any of its Subsidiaries has received or otherwise had or obtained Knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of Carolina Alliance or any of its Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that Carolina Alliance or any of its Subsidiaries has engaged in questionable accounting or auditing practices.

Section 4.09 Financial Statements; Undisclosed Liabilities.

(a) Carolina Alliance has previously delivered or made available to Pinnacle accurate and complete copies of Carolina Alliance's (i) audited financial statements for the years ended December 31, 2013 and 2012, accompanied by the unqualified audit reports of Elliott Davis LLC, independent auditors (collectively, the "Carolina Alliance Audited Financial Statements") and (ii) unaudited interim financial statements for the year ended December 31, 2014 (the "Carolina Alliance Unaudited Financial Statements" and, together with the Carolina Alliance Audited Financial Statements, the "Carolina Alliance Financial Statements"). Each of the Carolina Alliance Financial Statements fairly presents, in all material respects, the financial condition, results of operations and changes in shareholders' equity and cash flows of Carolina Alliance for the respective periods or as of the respective dates set forth therein, all in accordance with GAAP, except as may be noted therein. Each of the Carolina Alliance Financial Statements fairly presents, in all material respects, the financial condition and results of operations of Carolina Alliance for the respective periods or as of the respective dates set forth therein except as may be noted therein.

(b) The audits of Carolina Alliance have been conducted in accordance with GAAP.

(c) Carolina Alliance has no liability of the nature required to be disclosed in a balance sheet prepared in accordance with GAAP except for liabilities reflected or reserved against in the Carolina Alliance Financial Statements and current liabilities incurred in Carolina Alliance's Ordinary Course of Business since December 31, 2014 (the "Carolina Alliance Balance Sheet Date").

Section 4.10 Absence of Certain Changes or Events. Except as disclosed in CAB Disclosure Schedule Section 4.10, or as otherwise expressly permitted or expressly contemplated by this Agreement, since the Carolina Alliance Balance Sheet Date there has not been (i) any change or development in the business, operations, assets, liabilities, condition (financial or otherwise), results of operations, cash flows or properties of Carolina Alliance or any of its Subsidiaries which has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect with respect to Carolina Alliance or any of its Subsidiaries, and no fact or condition exists which is reasonably likely to cause a Material Adverse Effect with respect to Carolina Alliance or any of its Subsidiaries in the future; (ii) any change by Carolina Alliance or any of its Subsidiaries in its accounting methods, principles or practices, other than changes required by applicable Law or GAAP or regulatory accounting as concurred in by Carolina Alliance's independent auditors; (iii) any entry by Carolina Alliance or any of its Subsidiaries into any contract or commitment of (A) more than $25,000 or (B) with a term of more than one year, other than purchases or sales of investment securities, and loans and loan commitments, all in the Ordinary Course of Business; (iv) any declaration, setting aside or payment of any dividend or distribution in respect of any capital stock of Carolina Alliance or any of its Subsidiaries or any redemption, purchase or other acquisition of any of its securities, other than in the Ordinary Course of Business; (v) any increase in or establishment of any bonus, insurance, severance, deferred compensation, pension, retirement, profit sharing, stock option (including, without limitation, the granting of stock options, stock appreciation rights, performance awards, or restricted stock awards), stock purchase or other employee benefit plan, or any other increase in the compensation payable or to become payable to any directors, officers or employees of Carolina Alliance or any of its Subsidiaries (other than normal salary

adjustments to employees made in the Ordinary Course of Business), or any grant of severance or termination pay, or any contract or arrangement entered into to make or grant any severance or termination pay, any payment of any bonus, or the taking of any action not in the Ordinary Course of Business with respect to the compensation or employment of directors, officers or employees of Carolina Alliance or any of its Subsidiaries; (vi) any material election or material changes in existing elections made by Carolina Alliance or any of its Subsidiaries for federal or state income tax purposes; (vii) any material change in the credit policies or procedures of Carolina Alliance or any of its Subsidiaries, the effect of which was or is to make any such policy or procedure less restrictive in any respect; (viii) any material acquisition or disposition of any assets or properties, or any contract for any such acquisition or disposition entered into other than (A) investment securities in Carolina Alliance's investment portfolio or (B) loans and loan commitments purchased, sold, made or entered into in the Ordinary Course of Business; or (ix) any material lease of real or personal property entered into, other than in connection with foreclosed property or in the Ordinary Course of Business.

Section 4.11 Legal Proceedings. Except as set forth in CAB Disclosure Schedule Section 4.11:

(a) There are no civil, criminal, administrative or regulatory actions, suits, demand letters, demands for indemnification, claims, hearings, notices of violation, arbitrations, investigations, orders to show cause, market conduct examinations, notices of non-compliance or other proceedings of any nature pending or, to Carolina Alliance's Knowledge, threatened against Carolina Alliance or any of its Subsidiaries or to which Carolina Alliance or any of its Subsidiaries is a party;

(b) Neither Carolina Alliance nor any of its Subsidiaries is a party to any, nor are there any pending or, to Carolina Alliance's Knowledge, threatened, civil, criminal, administrative or regulatory actions, suits, demand letters, claims, hearings, notices of violation, arbitrations, investigations, orders to show cause, market conduct examinations, notices of non-compliance or other proceedings of any nature against Carolina Alliance or any of its Subsidiaries in which, to Carolina Alliance's Knowledge, there is a reasonable probability of any material recovery against or other potentially Material Adverse Effect with respect to Carolina Alliance or any of its Subsidiaries or which challenges or would challenge the validity or propriety of the transactions contemplated by this Agreement; and

(c) There is no injunction, order, judgment or decree imposed upon Carolina Alliance or any of its Subsidiaries, or the assets of Carolina Alliance or any of its Subsidiaries, and neither Carolina Alliance nor any of its Subsidiaries has been advised of, or has Knowledge of, the threat of any such action.

Section 4.12 Compliance With Laws.

(a) Except as set forth in CAB Disclosure Schedule Section 4.12, Carolina Alliance and each of its Subsidiaries is, and since inception has been, in compliance in all material respects with all applicable federal, state, local and foreign Laws, judgments, orders or decrees applicable thereto or to the employees conducting such businesses, including, without limitation,

Laws related to data protection or privacy, the USA PATRIOT Act, the Bank Secrecy Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Fair Credit Reporting Act, the Truth in Lending Act and any other Law relating to discriminatory lending, financing or leasing practices, Sections 23A and 23B of the Federal Reserve Act, and the Dodd-Frank Act;

(b) Carolina Alliance and each of its Subsidiaries has all permits, licenses, authorizations, orders and approvals of, and have made all filings, applications and registrations with, all Governmental Authorities that are required in order to permit it to own or lease their properties and to conduct their business as presently conducted; all such permits, licenses, certificates of authority, orders and approvals are in full force and effect and, to Carolina Alliance's Knowledge, no suspension or cancellation of any of them is threatened; and

(c) Except as set forth in CAB Disclosure Schedule Section 4.12, neither Carolina Alliance nor any of its Subsidiaries has received, since inception, notification or communication from any Governmental Authority (i) asserting that it is not in compliance with any of the Laws which such Governmental Authority enforces or (ii) threatening to revoke any license, franchise, permit or governmental authorization (nor do any grounds for any of the foregoing exist).

(d) Carolina Alliance has timely made all market notifications associated with its previous declaration and payment of dividends and/or distributions pursuant to FINRA Rule 6490 and has filed all information required by it for the Carolina Alliance Common Stock to be traded on the OTCQB.

Section 4.13 Material Contracts; Defaults.

(a) Except as disclosed in CAB Disclosure Schedule Section 4.13, neither Carolina Alliance nor any of its Subsidiaries is a party to, bound by or subject to any agreement, contract, arrangement, commitment or understanding (whether written or oral) (i) with respect to the employment of any directors, officers, employees or consultants, (ii) which would entitle any present or former director, officer, employee or agent of Carolina Alliance or any of its Subsidiaries to indemnification from Carolina Alliance or any of its Subsidiaries, (iii) the benefits of which will be increased, or the vesting of benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement, or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement, (iv) which grants any right of first refusal, right of first offer or similar right with respect to any material assets or properties of Carolina Alliance and/or its Subsidiaries; (v) which provides for payments to be made by Carolina Alliance or any of its Subsidiaries upon a change in control thereof; (vi) which provides for the lease of personal property having a value in excess of $50,000 individually or $100,000 in the aggregate; (vii) which relates to capital expenditures and involves future payments in excess of $50,000 individually or $100,000 in the aggregate; (viii) which relates to the disposition or acquisition of assets or any interest in any business enterprise outside the Ordinary Course of Business of Carolina Alliance; (ix) which is not terminable on 60 days or less notice and involving the payment of more than $50,000 per annum; or (x) which materially restricts the conduct of any business by Carolina Alliance or any of its Subsidiaries (collectively, "Carolina Alliance Material Contracts"). Carolina Alliance has

previously made available to Pinnacle true, complete and correct copies of each such Carolina Alliance Material Contract.

(b) Neither Carolina Alliance nor any of its Subsidiaries is in default under any contract, agreement, commitment, arrangement, lease, insurance policy or other instrument, including but not limited to any Carolina Alliance Material Contract, to which it is a party, by which its assets, business, or operations may be bound or affected, or under which it or its assets, business, or operations receives benefits, and there has not occurred any event that, with the lapse of time or the giving of notice or both, would constitute such a default. Except to the extent otherwise provided in this Agreement, no power of attorney or similar authorization given directly or indirectly by Carolina Alliance is currently outstanding.

Section 4.14 Agreements with Regulatory Agencies. Neither Carolina Alliance nor any of its Subsidiaries is subject to any cease-and-desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is a recipient of any extraordinary supervisory letter from, or is subject to any order or directive by, or has adopted any board resolutions at the request of any Governmental Authority (each, a "Carolina Alliance Regulatory Agreement") that restricts, or by its terms will in the future restrict, the conduct of its business or that in any manner relates to its capital adequacy, its credit or risk management policies, its dividend policies, its management, its business or its operations, nor has Carolina Alliance or any of its Subsidiaries been advised by any Governmental Authority that it is considering issuing or requesting (or is considering the appropriateness of issuing or requesting) any Carolina Alliance Regulatory Agreement. To Carolina Alliance's Knowledge, there are no investigations relating to any material regulatory matters pending before any Governmental Authority with respect to the Carolina Alliance or any of its Subsidiaries.

Section 4.15 Brokers. Neither Carolina Alliance nor any of its officers, directors or any of its Subsidiaries has employed any broker or finder or incurred any liability for any broker's fees, commissions or finder's fees in connection with any of the transactions contemplated by this Agreement, except that Carolina Alliance has engaged, and will pay a fee or commission to, FIG Partners, LLC in accordance with the terms of a letter agreement between FIG Partners, LLC and Carolina Alliance, a true, complete and correct copy of which has been previously delivered by Carolina Alliance to Pinnacle.

Section 4.16 Employee Benefit Plans.

(a) All benefit and compensation plans, contracts, policies or arrangements (i) covering current or former employees of Carolina Alliance or any of its Subsidiaries (the "Carolina Alliance Employees"), (ii) covering current or former directors of Carolina Alliance or any of its Subsidiaries, or (iii) with respect to which the Carolina Alliance or any of its Subsidiaries has or may have any liability or contingent liability (including liability arising from affiliation under Section 414 of the Code or Section 4001 of ERISA) including, but not limited to, "employee benefit plans" within the meaning of Section 3(3) of ERISA, health/welfare, change in control, fringe benefit, deferred compensation, stock option, stock purchase, stock appreciation rights, stock based, incentive, bonus plans and other policies, plans or arrangements whether or not subject to ERISA (the "Carolina Alliance Benefit Plans"), are identified and

described in CAB Disclosure Schedule 4.16. Neither Carolina Alliance nor any of its Subsidiaries has any stated plan, intention or commitment to establish any new company benefit plan or to modify any Carolina Alliance Benefit Plan (except to the extent required by law).

(b) Carolina Alliance has provided Pinnacle with true and complete copies of all Carolina Alliance Benefit Plans including, but not limited to, any trust instruments and insurance contracts forming a part of any Carolina Alliance Benefit Plans and all amendments thereto, summary plan descriptions and summary of material modifications, IRS Form 5500 (for the three most recently completed plan years), the most recent IRS determination, opinion, notification and advisory letters, with respect thereto and any correspondence from any Regulatory Agency. In addition, any annual and periodic accounting, service contract, fidelity bonds and employee and participant disclosures pertaining to the Carolina Alliance Benefit Plans have been made available to Pinnacle.

(c) All Carolina Alliance Benefit Plans are in substantial compliance in form and operation with all applicable Laws, including ERISA and the Code. Each Carolina Alliance Benefit Plan that is intended to be qualified under Section 401(a) of the Code ("Carolina Alliance 401(a) Plan") has received a favorable determination or opinion letter from the IRS; Carolina Alliance is has no Knowledge of any circumstance that could reasonably be expected to result in revocation of any such favorable determination or opinion letter or the loss of the qualification of such Carolina Alliance 401(a) Plan under Section 401(a) of the Code; and to Carolina Alliance's Knowledge, nothing has occurred that would be expected to result in the Carolina Alliance 401(a) Plan ceasing to be qualified under Section 401(a) of the Code. To Carolina Alliance's Knowledge, all Carolina Alliance Benefit Plans have been administered in accordance with their terms. There is no pending or, to Carolina Alliance's Knowledge, threatened litigation or regulatory action relating to the Carolina Alliance Benefit Plans. Neither Carolina Alliance nor any of its Subsidiaries has engaged in a transaction with respect to any Carolina Alliance Benefit Plan, including a Carolina Alliance 401(a) Plan that could subject Carolina Alliance or any of its Subsidiaries to a Tax or penalty under any Law including, but not limited to, Section 4975 of the Code or Section 502(i) of ERISA. No Carolina Alliance 401(a) Plan has been submitted under or been the subject of an IRS voluntary compliance program submission. There are no audits, investigations, inquiries or proceedings pending or threatened by the IRS or the Department of Labor with respect to any Carolina Alliance Benefit Plan.

(d) No liability under Subtitle C or D of Title IV of ERISA has been or is expected to be incurred by Carolina Alliance or any of its Subsidiaries with respect to any ongoing, frozen or terminated "single employer plan," within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by Carolina Alliance, any of its Subsidiaries or any entity which is considered an ERISA Affiliate. None of Carolina Alliance or any ERISA Affiliate has contributed to (or been obligated to contribute to) a "multiemployer plan" within the meaning of Section 3(37) of ERISA at any time and neither Carolina Alliance nor any of its Subsidiaries has incurred, and does not expect to incur, any withdrawal liability with respect to a multiemployer plan under Subtitle E of Title IV of ERISA (regardless of whether based on contributions of an ERISA Affiliate). No notice of a "reportable event," within the meaning of Section 4043 of ERISA has been required to be filed for any Carolina Alliance Benefit Plan or by any ERISA

Affiliate or will be required to be filed in connection with the transactions contemplated by this Agreement.

(e) All contributions required to be made with respect to all Carolina Alliance Benefit Plans have been timely made or have been reflected on the Carolina Alliance Financial Statements. No Carolina Alliance Benefit Plan or single-employer plan of an ERISA Affiliate has an "accumulated funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA, and no ERISA Affiliate has an outstanding funding waiver.

(f) No Carolina Alliance Benefit Plan provides or has any liability to provide life insurance, medical or other employee welfare benefits to any Carolina Alliance Employee upon his or her retirement or termination of employment for any reason, except as may be required by Law, and neither Carolina Alliance nor any Subsidiary has ever represented or contracted (whether in oral or written form) to any Carolina Alliance Employee (either individually, or to Carolina Alliance Employees as a group) that such Carolina Alliance Employee(s) would be provided with life insurance, medical or other employee welfare benefits, upon their retirement or termination of employment, except to the extent required by Law.

(g) All Carolina Alliance Benefit Plans that are group health plans have been operated in compliance with the group health plan continuation requirements of Section 4980B of the Code and all other applicable sections of ERISA and the Code. Carolina Alliance may amend or terminate any such Carolina Alliance Benefit Plan at any time without incurring any liability thereunder for further benefits coverage at any time after such termination.

(h) Except as otherwise provided for in this Agreement, the execution of this Agreement, shareholder approval of this Agreement or consummation of any of the transactions contemplated by this Agreement will not (i) entitle any Carolina Alliance Employee to severance pay or any increase in severance pay upon any termination of employment after the date hereof, (ii) accelerate the time of payment or vesting (except as required by law) or trigger any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any of the Carolina Alliance Benefit Plans, (iii) result in any breach or violation of, or a default under, any of the Carolina Alliance Benefit Plans, (iv) result in any payment that would be a "parachute payment" to a "disqualified individual" as those terms are defined in Section 280G of the Code, without regard to whether such payment is reasonable compensation for personal services performed or to be performed in the future, (v) limit or restrict the right of Carolina Alliance or, after the consummation of the transactions contemplated hereby, the Surviving Entity or any of its Subsidiaries, to merge, amend or terminate any of the Carolina Alliance Benefit Plans, or (vi) result in payments under any of the Carolina Alliance Benefit Plans for which a deduction would be disallowed by reason of Section 280G of the Code.

(i) Each Carolina Alliance Benefit Plan that is a deferred compensation plan or arrangement is in compliance with Section 409A of the Code, to the extent applicable. All elections made with respect to compensation deferred under an arrangement subject to Section 409A of the Code have been made in accordance with the requirements of Section 409A(a)(4) of the Code, to the extent applicable. Neither Carolina Alliance nor any of its

Subsidiaries (i) has taken any action, or has failed to take any action, that has resulted or could reasonably be expected to result in the interest and Tax penalties specified in Section 409A(a)(1)(B) of the Code being owed by any participant in a Carolina Alliance Benefit Plan or (ii) has agreed to reimburse or indemnify any participant in a Carolina Alliance Benefit Plan for any of the interest and the penalties specified in Section 409A(a)(1)(B) of the Code that may be currently due or triggered in the future.

(j) Carolina Alliance and its Subsidiaries have correctly classified all individuals who directly or indirectly perform services for Carolina Alliance or any of its Subsidiaries for purposes of each Carolina Alliance Benefit Plan, ERISA, the Code, unemployment compensation laws, workers' compensation laws and all other applicable Laws.

Section 4.17 Labor Matters.

(a) Neither Carolina Alliance nor any of its Subsidiaries is a party to or bound by any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor is there any proceeding pending or, to Carolina Alliance's Knowledge threatened, asserting that Carolina Alliance or any of its Subsidiaries has committed an unfair labor practice (within the meaning of the National Labor Relations Act) or seeking to compel Carolina Alliance or any of its Subsidiaries to bargain with any labor organization as to wages or conditions of employment, nor is there any strike, slowdown, walkout, other work stoppage or other labor dispute involving it pending or, to Carolina Alliance's Knowledge, threatened, nor to Carolina Alliance's Knowledge are any of its employees seeking to certify a collective bargaining unit or otherwise engaging in other organizational activity.

(b) Carolina Alliance reasonably believes that each of its current independent contractors has been appropriately treated as an independent contractor under applicable Laws.

Section 4.18 Environmental Matters.

(a) Except as set forth in CAB Disclosure Schedule Section 4.18, and except as would not be expected to have a Material Adverse Effect, to Carolina Alliance's Knowledge, there has been no release of Hazardous Substances at, on, or under any real property (including buildings or other structures) currently or formerly owned, operated or leased by Carolina Alliance or any of its Subsidiaries, that has formed or that could reasonably be expected to form the basis of any Environmental Claim against Carolina Alliance or any of its Subsidiaries.

(b) Except as disclosed on CAB Disclosure Schedule Section 4.18, to Carolina Alliance's Knowledge, neither Carolina Alliance nor its Subsidiaries has acquired, nor is any of them now in the process of acquiring, any real property through foreclosure or deed in lieu of foreclosure which has been contaminated with, or has had any release of, any Hazardous Substance in a manner that violates Environmental Law or requires reporting, investigation, remediation or monitoring under Environmental Law.

(c) Except as disclosed on CAB Disclosure Schedule Section 4.18, to Carolina Alliance's Knowledge, neither Carolina Alliance nor any of its Subsidiaries has previously been

nor is any of them now in material violation of or material noncompliance with applicable Environmental Law.

(d) To Carolina Alliance's Knowledge, neither Carolina Alliance nor any of its Subsidiaries could be deemed the owner or operator of, or to have participated in the management of, any Carolina Alliance Loan Property which has been contaminated with, or has had any release of, any Hazardous Substance in a manner that violates Environmental Law or requires reporting, investigation, remediation or monitoring under Environmental Law.

(e) Except as disclosed on CAB Disclosure Schedule Section 4.18, neither Carolina Alliance nor any of its Subsidiaries has received (i) any written notice, demand letter, or claim alleging any violation of, or liability under, any Environmental Law by Carolina Alliance or any of its Subsidiaries or (ii) any written request for information reasonably indicating an investigation or other inquiry by any Government Authority concerning a possible violation of, or liability under, any Environmental Law.

(f) Neither Carolina Alliance nor any of its Subsidiaries has received notice of any Lien or encumbrance having been imposed on property owned, operated or leased by Carolina Alliance or its Subsidiaries in connection with any liability or potential liability arising from or related to Environmental Law, and to Carolina Alliance's Knowledge, there is no action, proceeding, writ, injunction or claim pending or threatened which could result in the imposition of any such Lien or encumbrance on property owned, operated or leased by Carolina Alliance or any of its Subsidiaries.

(g) Neither Carolina Alliance nor any of its Subsidiaries is, or has been, subject to any order, decree or injunction relating to a violation of or allegation of liability under any Environmental Law.

(h) Except as would not be expected to have a Material Adverse Effect, to Carolina Alliance's Knowledge, there are no circumstances or conditions (including the presence of asbestos, underground storage tanks, lead products, polychlorinated biphenyls, prior manufacturing operations, dry-cleaning, or automotive services) involving Carolina Alliance, any of its Subsidiaries, or any currently or formerly owned, operated or leased property, that could reasonably be expected pursuant to applicable Environmental Law to (i) result in any claim, liability or investigation against Carolina Alliance or any of its Subsidiaries, or (ii) result in any restriction on the ownership, use, or transfer of any such property.

(i) Carolina Alliance has made available to Pinnacle copies of all environmental reports, studies, sampling data, correspondence, filings and other information known to Carolina Alliance and in its possession relating to environmental conditions at or on any real property (including buildings or other structures) currently owned, operated or leased by Carolina Alliance or any of its Subsidiaries.

(j) There is no litigation pending or, to Carolina Alliance's Knowledge, threatened against Carolina Alliance or any of its Subsidiaries, or, to Carolina Alliance's Knowledge, affecting any property now or formerly owned, used or leased by Carolina Alliance or any of its Subsidiaries, before any court, or Governmental Authority (i) for alleged noncompliance with

any Environmental Law or (ii) relating to the presence or release into the environment of any Hazardous Substance.

(k) To Carolina Alliance's Knowledge, there are no underground storage tanks on, in or under any property currently owned, operated or leased by Carolina Alliance or any of its Subsidiaries.

Section 4.19 Tax Matters.

(a) Carolina Alliance and each of its Subsidiaries has filed all material Tax Returns that it was required to file under applicable Laws, other than Tax Returns that are not yet due or for which a request for extension was timely filed consistent with requirements of applicable Law. All such Tax Returns were correct and complete in all material respects and have been prepared in substantial compliance with all applicable Laws. Except as set forth in CAB Disclosure Schedule Section 4.19, all material Taxes due and owing by Carolina Alliance or any of its Subsidiaries (whether or not shown on any Tax Return) have been paid other than Taxes that have been reserved or accrued on the balance sheet of Carolina Alliance or which Carolina Alliance is contesting in good faith. Except as set forth in CAB Disclosure Schedule Section 4.19, Carolina Alliance is not currently the beneficiary of any extension of time within which to file any Tax Return. Since inception, no claim has been made by any Governmental Authority in a jurisdiction where Carolina Alliance does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no Liens for Taxes (other than Taxes not yet due and payable) upon any of the assets of Carolina Alliance or any of its Subsidiaries.

(b) Carolina Alliance and each of its Subsidiaries, as applicable, have withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, shareholder or other third party.

(c) No foreign, federal, state, or local tax audits or administrative or judicial Tax proceedings are currently being conducted or to Carolina Alliance's Knowledge are pending with respect to Carolina Alliance or any of its Subsidiaries. Other than with respect to audits that have already been completed and resolved, neither Carolina Alliance nor any of its Subsidiaries has received from any foreign, federal, state, or local taxing authority (including jurisdictions where Carolina Alliance and or any of its Subsidiaries have not filed Tax Returns) any (i) written notice indicating an intent to open an audit or other review, (ii) request for information related to Tax matters, or (iii) written notice of deficiency or proposed adjustment for any amount of Tax proposed, asserted, or assessed by any taxing authority against Carolina Alliance or any of its Subsidiaries.

(d) Carolina Alliance has made available to Pinnacle true and complete copies of the United States federal, state, local, and foreign consolidated income Tax Returns filed with respect to Carolina Alliance for taxable periods ended December 31, 2013 and 2012. Carolina Alliance has delivered to Pinnacle correct and complete copies of all examination reports, and statements of deficiencies assessed against or agreed to by Carolina Alliance, with respect to any Taxes since December 31, 2010. Carolina Alliance has timely and properly taken such actions in response to and in compliance with any notices that Carolina Alliance has received from the IRS

in respect of information reporting and backup and nonresident withholding as are required by law.

(e) Carolina Alliance has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(f) Carolina Alliance has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). Carolina Alliance has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Code Section 6662. Carolina Alliance is not a party to or bound by any Tax allocation or sharing agreement. Carolina Alliance (i) has not been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was Carolina Alliance), and (ii) has no liability for the Taxes of any individual, bank, corporation, partnership, association, joint stock company, business trust, limited liability company, or unincorporated organization (other than Carolina Alliance) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign Law), as a transferee or successor, by contract, or otherwise.

(g) The unpaid Taxes of Carolina Alliance (i) did not, as of December 31, 2014, exceed the reserve for Tax liability (which reserve is distinct and different from any reserve for deferred Taxes established to reflect timing differences between book and Tax income) reflected in the Carolina Alliance Financial Statements delivered to Pinnacle (rather than in any notes thereto), and (ii) do not exceed that reserve as adjusted for the passage of time in accordance with the past custom and practice of Carolina Alliance in filing its Tax Returns.

(h) Carolina Alliance will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Effective Time as a result of any: (i) change in method of accounting for a taxable period ending on or prior to the Closing Date; (ii) "closing agreement" as described in Code Section 7121 (or any corresponding or similar provision of state, local or foreign income Tax law) executed on or prior to the Closing Date; (iii) intercompany transactions or any excess loss account described in Treasury Regulations under Code Section 1502 (or any corresponding or similar provision of state, local or foreign income Tax Law); (iv) installment sale or open transaction disposition made on or prior to the Closing Date; or (v) prepaid amount received on or prior to the Closing Date.

(i) Carolina Alliance has not distributed stock of another Person or had its stock distributed by another Person in a transaction that was purported or intended to be governed in whole or in part by Section 355 or Section 361 of the Code.

(j) As of the date of this Agreement it is the present intention, and as of the day of the Effective Time it will be the present intention, of Carolina Alliance to continue, either through Carolina Alliance or through a member of Carolina Alliance's qualified group" (as defined in Treasury Regulations Section 1.368 1(d)(4)), at least one significant historic business line of Pinnacle, or to use at least a significant portion of Pinnacle's historic business assets in a business, in each case within the meaning of Treasury Regulations Section 1.368 1(d). As of the

date of this Agreement and as of the date of the Effective Time, neither Carolina Alliance nor any "related person" (as defined in Treasury Regulations Section 1.368-1(e)(4)) to Carolina Alliance has or will have any plan or intention to redeem or reacquire, either directly or indirectly, any of the Carolina Alliance Common Stock issued to the shareholders of PBSC Financial in connection with the Merger. As of the date of this Agreement and as of the date of the Effective Time, Carolina Alliance does not have and will not have any plan or intention to sell or otherwise dispose of any of the assets of Pinnacle acquired in the Merger, except for dispositions made in the ordinary course of business or transfers described in Section 368(a)(2)(C) of the Code or described and permitted in Treasury Regulations Section 1.368-2(k).

Section 4.20 Investment Securities. Carolina Alliance has previously provided to Pinnacle a true and correct report setting forth as of the Carolina Alliance Balance Sheet Date, the investment securities of Pinnacle, reflecting with respect to all such securities, whenever purchased or sold, descriptions thereof, CUSIP numbers, designations as securities "available for sale" or securities "held to maturity," as those terms are used in ASC 320, book values, fair values and coupon rates, and any gain or loss with respect to any investment securities sold during such time period after the Carolina Alliance Balance Sheet Date. Except as set forth in CAB Disclosure Schedule 4.20, neither Carolina Alliance nor any of its Affiliates has purchased or sold any such securities listed and described thereon as of the date of this Agreement. Neither Carolina Alliance or any of its Affiliates owns, individually or in the aggregate, in excess of 5% of the outstanding equity of any savings bank, savings and loan association, savings and loan holding company, credit union, bank or bank holding company, insurance company, mortgage or loan broker or any other financial institution.

Section 4.21 Derivative Transactions.

(a) All Derivative Transactions entered into by Carolina Alliance or any of its Subsidiaries or for the account of any of its customers were entered into in accordance with applicable Laws and regulatory policies of any Governmental Authority, and in accordance with the investment, securities, commodities, risk management and other policies, practices and procedures employed by Carolina Alliance or any of its Subsidiaries, and were entered into with counterparties believed at the time to be financially responsible and able to understand (either alone or in consultation with its advisers) and to bear the risks of such Derivative Transactions. Carolina Alliance and each of its Subsidiaries have duly performed all of their obligations under the Derivative Transactions to the extent that such obligations to perform have accrued, and, to Carolina Alliance's Knowledge, there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder.

(b) Except as set forth in CAB Disclosure Schedule Section 4.21, no Derivative Transaction, were it to be a Loan held by Carolina Alliance, would be classified as "Special Mention," "Substandard," "Doubtful," "Loss," "Classified," "Criticized," "Credit Risk Assets," "Concerned Loans," "Watch List" or words of similar import.

(c) Each Derivative Transaction is listed on CAB Disclosure Schedule Section 4.21, and the financial position of Carolina Alliance under or with respect to each has been reflected in the books and records of Carolina Alliance in accordance with GAAP, and no open exposure of Carolina Alliance with respect to any such instrument (or with respect to multiple instruments

with respect to any single counterparty) exists, except as disclosed on CAB Disclosure Schedule Section 4.21.

Section 4.22 Regulatory Capitalization. As of the date of its most recent Report of Condition and Income, Carolina Alliance was "well-capitalized," as such term is defined in the rules and regulations promulgated by the FDIC. Carolina Alliance is an "eligible depository institution" as defined in 12 C.F.R. § 303.2(r).

Section 4.23 Loans; Nonperforming and Classified Assets.

(a) Each Loan held in Carolina Alliance's loan portfolio ("Carolina Alliance Loan") (i) is evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be, (ii) to the extent secured, has been secured by valid Liens which have been perfected and (iii) to Carolina Alliance's Knowledge, is a legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. Carolina Alliance has previously provided to Pinnacle a report that identifies (x) each Loan that as of December 31, 2014 that was classified as "Special Mention," "Substandard," "Doubtful," "Loss," "Classified," "Criticized," "Credit Risk Assets," "Concerned Loans," "Watch List" or words of similar import by Pinnacle or any bank examiner, together with the principal amount of and accrued and unpaid interest on each such Loan and the identity of the borrower thereunder and (y) each asset of Carolina Alliance that as of December 31, 2014 was classified as other real estate owned ("OREO") and the book value thereof as of December 31, 2014. Set forth in CAB Disclosure Schedule 4.23 is a true and correct copy of Carolina Alliance's Policy Exception Report as of December 31, 2014.

(b) All currently outstanding Carolina Alliance Loans were solicited, originated and currently exist in material compliance with all applicable requirements of Law and Carolina Alliance's lending policies at the time of origination of such Carolina Alliance Loans, and the loan documents with respect to each such Carolina Alliance Loan are complete and correct. There are no oral modifications or amendments or additional agreements related to the Carolina Alliance Loans that are not reflected in the written records of Carolina Alliance. All such Carolina Alliance Loans are owned by Carolina Alliance free and clear of any Liens, other than as set forth in CAB Disclosure Schedule Section 4.23. No claims of defense as to the enforcement of any Carolina Alliance Loan have been asserted in writing against Carolina Alliance, and Carolina Alliance has no Knowledge of any acts or omissions which would give rise to any claim or right of rescission, set-off, counterclaim or defense. Except for loan participations, none of the Carolina Alliance Loans are presently serviced by third parties, and there is no obligation which could result in any Carolina Alliance Loan becoming subject to any third party servicing.

(c) Carolina Alliance is not a party to any agreement or arrangement with (or otherwise obligated to) any Person which obligates Carolina Alliance to repurchase from any such Person any Loan or other asset of Carolina Alliance, unless there is a material breach of a representation or covenant by Carolina Alliance or its Subsidiaries.

Section 4.24 Allowance for Loan Losses. Carolina Alliance's allowance for loan losses as reflected in the latest balance sheet included in the Carolina Alliance Financial Statements was, in the opinion of management in light of Carolina Alliance's historical loan loss experience, as of the date thereof, in compliance with Carolina Alliance's existing methodology for determining the adequacy of its allowance for loan losses as well as the standards established by applicable Governmental Authority, the Financial Accounting Standards Board and GAAP.

Section 4.25 Trust Business; Administration of Fiduciary Accounts. Carolina Alliance has properly administered all accounts for which it acts as a fiduciary, including, but not limited to, accounts for which it serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor, in accordance with the terms of the governing documents and applicable laws and regulations. Carolina Alliance has not, nor to Carolina Alliance's Knowledge, has any of its directors, officers or employees, committed any breach of trust with respect to any fiduciary account and the records for each such fiduciary account are true and correct and accurately reflect the assets of such fiduciary account.

Section 4.26 Investment Management and Related Activities. None of Carolina Alliance, any Subsidiary or any of their respective officers or employees is required to be registered, licensed or authorized under the Laws issued by any Governmental Authority as an investment adviser, a broker or dealer, an insurance agency or company, a commodity trading adviser, a commodity pool operator, a futures commission merchant, an introducing broker, a registered representative or associated person, investment adviser, representative or solicitor, a counseling officer, an insurance agent, a sales person or in any similar capacity with a Governmental Authority.

Section 4.27 Repurchase Agreements. With respect to all agreements pursuant to which Carolina Alliance or any of its Subsidiaries has purchased securities subject to an agreement to resell, if any, Carolina Alliance or any of its Subsidiaries, as the case may be, has a valid, perfected first lien or security interest in the government securities or other collateral securing the repurchase agreement, and the value of such collateral equals or exceeds the amount of the debt secured thereby.

Section 4.28 Deposit Insurance. The deposits of Carolina Alliance are insured by the FDIC in accordance with the FDIA to the full extent permitted by Law, and Carolina Alliance has paid all premiums and assessments (to the extent due and payable) and filed all reports required by the FDIA. No proceedings for the revocation or termination of such deposit insurance are pending or, to Carolina Alliance's Knowledge, threatened.

Section 4.29 CRA, Anti-money Laundering and Customer Information Security. Neither Carolina Alliance nor any of its Subsidiaries is a party to any agreement with any individual or group regarding Community Reinvestment Act matters and to Carolina Alliance's Knowledge (because of Carolina Alliance's Home Mortgage Disclosure Act data for the year ended December 31, 2014, filed with the FDIC, or otherwise), no facts or circumstances exist, which would cause Carolina Alliance: (i) to be deemed not to be in satisfactory compliance with the Community Reinvestment Act, and the regulations promulgated thereunder, or to be assigned a rating for Community Reinvestment Act purposes by federal or state bank regulators of lower

than "satisfactory"; or (ii) to be deemed to be operating in violation of the Bank Secrecy Act and its implementing regulations (31 C.F.R. Part 103), the USA PATRIOT Act, any order issued with respect to anti-money laundering by the U.S. Department of the Treasury's Office of Foreign Assets Control, or any other applicable anti-money laundering statute, rule or regulation; or (iii) to be deemed not to be in satisfactory compliance with the applicable privacy of customer information requirements contained in any federal and state privacy laws and regulations, including, without limitation, in Title V of the Gramm-Leach-Bliley Act of 1999 and regulations promulgated thereunder, as well as the provisions of the information security program adopted by Carolina Alliance pursuant to 12 C.F.R. Part 364. Furthermore, the board of directors of Carolina Alliance has adopted and Carolina Alliance has implemented an anti-money laundering program that contains adequate and appropriate customer identification verification procedures that has not been deemed ineffective by any Governmental Authority and that meets the requirements of Sections 352 and 326 of the USA PATRIOT Act.

Section 4.30 Transactions with Affiliates. Except as set forth in CAB Disclosure Schedule Section 4.30, there are no outstanding amounts payable to or receivable from, or advances by Carolina Alliance or any of its Subsidiaries to, and neither Carolina Alliance nor any of its Subsidiaries is otherwise a creditor or debtor to, any director, Executive Officer, 5% or greater shareholder or other Affiliate of Carolina Alliance or any of its Subsidiaries, or to Carolina Alliance's Knowledge, any person, corporation or enterprise controlling, controlled by or under common control with any of the foregoing, other than part of the normal and customary terms of such persons' employment or service as a director with Carolina Alliance or any of its Subsidiaries and other than deposits held by Carolina Alliance in the Ordinary Course of Business. Except as set forth in CAB Disclosure Schedule Section 4.30, neither Carolina Alliance nor any of its Subsidiaries is a party to any transaction or agreement with any of its respective directors, Executive Officers or other Affiliates. All agreements between Carolina Alliance and any of its Affiliates comply, to the extent applicable, with Regulation W of the FRB.

Section 4.31 Tangible Properties and Assets.

(a) CAB Disclosure Schedule Section 4.31 sets forth a true, correct and complete list of all real property owned by Carolina Alliance and each of its Subsidiaries. Carolina Alliance or its Subsidiary has good, valid and marketable title to, valid leasehold interests in or otherwise legally enforceable rights to use all of the real property, personal property and other assets (tangible or intangible), used, occupied and operated or held for use by it in connection with its business as presently conducted in each case, free and clear of any Lien, except such Liens that do not materially affect the use of such real property, personal property and other assets or otherwise materially impair business operations at such properties as used on the date hereof, and except for statutory Liens for amounts not yet delinquent.

(b) CAB Disclosure Schedule Section 4.31 sets forth a true, correct and complete schedule of all leases, subleases, licenses and other agreements under which Carolina Alliance or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, real property (the "Carolina Alliance Leases"). Each of the Carolina Alliance Leases is valid, binding and in full force and effect and neither Carolina Alliance nor any of its Subsidiaries has received a written notice of, and otherwise has no Knowledge of any, material default or

termination with respect to any Carolina Alliance Lease. To Carolina Alliance's Knowledge, there has not occurred any event and no condition exists that would constitute a termination event or a material breach by Carolina Alliance or any of its Subsidiaries of, or material default by Carolina Alliance or any of its Subsidiaries in, the performance of any covenant, agreement or condition contained in any Carolina Alliance Lease. To Carolina Alliance's Knowledge, no lessor under a Carolina Alliance Lease is in material breach or default in the performance of any material covenant, agreement or condition contained in such Carolina Alliance Lease. Except as set forth on CAB Disclosure Schedule Section 4.31, Carolina Alliance has not received written notice of any pending or, to Carolina Alliance's Knowledge, threatened legal, administrative, arbitral or other proceeding, claim, action or governmental or regulatory investigation of any nature with respect to the real property that Carolina Alliance or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, including without limitation a pending or threatened taking of any of such real property by eminent domain. Carolina Alliance and each of its Subsidiaries has paid all rents and other charges to the extent due under the Carolina Alliance Leases.

(c) All buildings, structures, fixtures, building systems and equipment, and all components thereof, including the roof, foundation, load-bearing walls and other structural elements thereof, heating, ventilation, air conditioning, mechanical, electrical, plumbing and other building systems, environmental control, remediation and abatement systems, sewer, storm and waste water systems, irrigation and other water distribution systems, parking facilities, fire protection, security and surveillance systems, and telecommunications, computer, wiring and cable installations, included in the owned real property or the subject of the Carolina Alliance Leases are, to Carolina Alliance's Knowledge, in good condition and repair (normal wear and tear excepted) and sufficient for the operation of the business of Carolina Alliance and its Subsidiaries.

Section 4.32 Intellectual Property. CAB Disclosure Schedule Section 4.32 sets forth a true, complete and correct list of all registrations for, and pending applications to register, material Carolina Alliance Intellectual Property. Carolina Alliance or its Subsidiaries owns or has a valid license to use all such Carolina Alliance Intellectual Property, free and clear of all Liens, royalty or other payment obligations (except for royalties or payments with respect to off-the-shelf Software at standard commercial rates). Carolina Alliance or its Subsidiaries owns or has a valid license or other rights to use all of the material Intellectual Property necessary to carry on the business of Carolina Alliance and its Subsidiaries as currently conducted. The Carolina Alliance Intellectual Property owned by Carolina Alliance, and to Carolina Alliance's Knowledge, all other Intellectual Property necessary to carry on the business of Carolina Alliance and its Subsidiaries, is valid and enforceable and has not been cancelled, forfeited, expired or abandoned, and neither Carolina Alliance nor any of its Subsidiaries has received written notice challenging the validity or enforceability of the Carolina Alliance Intellectual Property. To Carolina Alliance's Knowledge, the conduct of the business of Carolina Alliance or any of its Subsidiaries does not violate, misappropriate or infringe upon the intellectual property rights of any third party, and neither Carolina Alliance nor any of its Subsidiaries have received written notice of any third-party claim of an intellectual property rights violation. The consummation of the transactions contemplated hereby will not result in the loss or impairment of the right of Carolina Alliance or any of its Subsidiaries to own or use any of Carolina Alliance

Intellectual Property or any other material Intellectual Property necessary to carry on the business.

Section 4.33 Insurance.

(a) CAB Disclosure Schedule Section 4.33 identifies all of the material insurance policies, binders, or bonds currently maintained by Carolina Alliance and its Subsidiaries (the "Carolina Alliance Insurance Policies"), including the insurer, policy numbers, amount of coverage, effective and termination dates and any pending claims thereunder involving more than $10,000. Carolina Alliance and each of its Subsidiaries is insured with reputable insurers against such risks and in such amounts as the management of Carolina Alliance reasonably has determined to be prudent in accordance with industry practices. All the Carolina Alliance Insurance Policies are in full force and effect, neither Carolina Alliance nor any Subsidiary has received notice of cancellation of any of the Carolina Alliance Insurance Policies or otherwise has Knowledge that any insurer under any of the Carolina Alliance Insurance Policies has expressed an intent to cancel any such Carolina Alliance Insurance Policies, and neither Carolina Alliance nor any of its Subsidiaries is in default thereunder and all claims thereunder have been filed in due and timely fashion.

(b) Carolina Alliance does not have any bank owned life insurance ("BOLI") owned by Carolina Alliance or its Subsidiaries.

Section 4.34 Antitakeover Provisions. No "control share acquisition," "business combination moratorium," "fair price" or other form of antitakeover statute or regulation is applicable to this Agreement and the transactions contemplated hereby.

Section 4.35 Joint Proxy Statement/Offering Circular. As of the date of the Joint Proxy Statement/Offering Circular and the date of the Carolina Alliance Meeting to which such Joint Proxy Statement/Offering Circular relates, none of the information supplied or to be supplied by Carolina Alliance for inclusion or incorporation by reference in the Joint Proxy Statement/Offering Circular will contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided*, *however*, that information contained in any report or filing with the SEC in connection with such Joint Proxy Statement/Offering Circular as of a later date shall be deemed to modify information as of an earlier date.

Section 4.36 Disclosure. The representations and warranties contained in this Article IV, when considered as a whole and with the CAB Disclosure Schedules, do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make not misleading the statements and information contained in this Article IV.

Section 4.37 No Knowledge of Breach. Carolina Alliance has no Knowledge of any facts or circumstances that would result in Pinnacle being in breach on the date of execution of this Agreement of any representations and warranties of PBSC Financial or Pinnacle Bank set forth in Article III.

Section 4.38 Fairness Opinion. Prior to the execution of this Agreement, Carolina

Alliance has received a written opinion of FIG Partners, LLC to the effect that, as of the date thereof and based upon and subject to the matters set forth therein, the Merger Consideration is fair from a financial point of view to Carolina Alliance. Such opinion has been provided to Pinnacle and has not been amended or rescinded as of the date of this Agreement.

Section 4.39 Available Consideration. Carolina Alliance has available to it, or as of the Effective Time will have available to it, sufficient shares of authorized and unissued Carolina Alliance Common Stock and all funds necessary for the issuance and payment of the Merger Consideration and has funds available to it to satisfy its payment obligations under this Agreement.

ARTICLE V

COVENANTS

Section 5.01 Covenants of Pinnacle. During the period from the date of this Agreement (except where a different commencement date for the observance or performance of a covenant is specifically referenced in this Section 5.01) and continuing until the Effective Time, except as expressly contemplated or permitted by this Agreement or with the prior written consent of Carolina Alliance, which prior written consent shall not be unreasonably withheld, conditioned or delayed, PBSC Financial shall carry on its business, including the business of each of its Subsidiaries, only in the Ordinary Course of Business and consistent with prudent banking practice, and in compliance in all material respects with all applicable Laws. Without limiting the generality of the foregoing, PBSC Financial and each of its Subsidiaries shall, in respect of loan loss provisioning, securities, portfolio management, compensation and other expense management and other operations which might impact Pinnacle's equity capital, operate only in the Ordinary Course of Business and, where specifically required in this Section 5.01, only with Carolina Alliance's approval or mutual agreement. In addition, prior to the Effective Time, Pinnacle shall sell or otherwise collateralize those certain Pinnacle loans that are secured with PBSC stock and listed on Pinnacle Disclosure Schedule 5.01. Pinnacle will use commercially reasonable efforts to (i) preserve its business organization intact, (ii) keep available to itself and Carolina Alliance the present services of the current officers and employees of PBSC Financial and its Subsidiaries, (iii) preserve for itself and Carolina Alliance the goodwill of the customers of Pinnacle and others with whom business relationships exist, and (iv) use its commercially reasonable efforts to continue diligent collection efforts with respect to any delinquent loans and, to the extent within its control, not allow any material increase in delinquent loans. Without further limiting the generality of the foregoing provisions in this Section 5.01, and except as set forth in the Pinnacle Disclosure Schedule or as otherwise expressly contemplated or permitted by this Agreement or consented to in writing by Carolina Alliance, neither PBSC Financial nor any of its Subsidiaries shall, subsequent to the date of this Agreement:

(a) Stock. Except as may be required by the valid exercise of Rights outstanding on the date hereof to purchase PBSC Financial Common Stock, (i) issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its stock, any Rights, or any other securities (including units of beneficial ownership interest in any partnership or limited liability company), or enter into any agreement with respect to the foregoing, (ii) except

as expressly permitted by this Agreement, accelerate the vesting of any existing Rights, or (iii) except as expressly permitted by this Agreement, change (or establish a record date for changing) the number of, or provide for the exchange of, shares of its stock, any securities (including units of beneficial ownership interest in any partnership or limited liability company) convertible into or exchangeable for any additional shares of stock, any Rights issued and outstanding prior to the Effective Time as a result of a stock split, stock dividend, recapitalization, reclassification, or similar transaction with respect to its outstanding stock or any other such securities.

(b) Dividends; Other Distributions. On or after the date of this Agreement, declare, set aside or pay any dividends on or make other distributions (whether in cash or otherwise) in respect of any of its capital stock, provided that that PBSC Financial shall be permitted without notice to Carolina Alliance to pay distributions to holders of PBSC Financial Common Stock of (i) in March or April 2015, an amount not to exceed $450,000 based on PBSC Financial's 2014 earnings, and (ii) an amount not to exceed 40% of PBSC Financial's taxable income from January 1, 2015 to the Effective Time.

(c) Compensation; Employment Agreements, Etc. Enter into or amend or renew any employment, consulting, severance or similar agreements or arrangements with any director, officer or employee of PBSC Financial or any of its Subsidiaries, or grant any salary or wage increase or increase any employee benefit or pay any incentive or bonus payments, except (i) normal increases in compensation to employees in the Ordinary Course of Business and pursuant to policies currently in effect, *provided* that such increases shall not result in an annual adjustment in total compensation of more than 4% for any individual or 3% in the aggregate for all employees of PBSC Financial or any of its Subsidiaries other than as disclosed on Pinnacle Disclosure Schedule 5.01, (ii) as may be required by Law, (iii) to satisfy contractual obligations existing or contemplated as of the date hereof, as previously disclosed to Carolina Alliance and set forth on Pinnacle Disclosure Schedule 5.01, and (iv) bonus payments in the Ordinary Course of Business and pursuant to policies currently in effect, *provided* that such payments shall not exceed the aggregate amount set forth on Pinnacle Disclosure Schedule 5.01.

(d) Hiring; Promotions. (i) Except as set forth on Pinnacle Disclosure Schedule 5.01, hire any person as an employee of PBSC Financial or any of its Subsidiaries, except for at-will employees at an annual rate of salary not to exceed $50,000 to fill vacancies that may arise from time to time in the Ordinary Course of Business, or (ii) promote any employee, except to satisfy contractual obligations existing as of the date hereof and set forth on Pinnacle Disclosure Schedule 5.01, if any.

(e) Benefit Plans. Enter into, establish, adopt, amend, modify or terminate (except (i) as may be required by or to make consistent with applicable Law, subject to the provision of prior written notice to and consultation with respect thereto with Carolina Alliance, (ii) to satisfy contractual obligations existing as of the date hereof and set forth on Pinnacle Disclosure Schedule 5.01, (iii) as previously disclosed to Carolina Alliance and set forth on Pinnacle Disclosure Schedule 5.01, or (iv) as may be required pursuant to the terms of this Agreement) any Pinnacle Benefit Plan or other pension, retirement, stock option, stock purchase, savings,

profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement (or similar arrangement) related thereto, in respect of any current or former director, officer or employee of PBSC Financial or any of its Subsidiaries.

(f) Transactions with Affiliates. Except pursuant to agreements or arrangements in effect on the date hereof and set forth on Pinnacle Disclosure Schedule 5.01, pay, loan or advance any amount to, or sell, transfer or lease any properties or assets (real, personal or mixed, tangible or intangible) to, or enter into any agreement or arrangement with, any of its officers or directors or any of their immediate family members or any Affiliates or associates (as such terms are defined under the Exchange Act) of any of its officers or directors other than in the Ordinary Course of Business.

(g) Dispositions. Except in the Ordinary Course of Business and in accordance with the terms of the participations set forth on Pinnacle Disclosure Schedule 5.01, sell, transfer, mortgage, pledge, encumber or otherwise dispose of or discontinue any of its assets, deposits, business or properties or cancel or release any indebtedness owed to PBSC Financial or any of its Subsidiaries.

(h) Acquisitions. Except in the Ordinary Course of Business and pursuant to Pinnacle Bank's "Business Manager" factoring line of business, acquire (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the Ordinary Course of Business) all or any portion of the assets, business, deposits or properties of any other entity, except for purchases specifically approved by Carolina Alliance pursuant to any other applicable paragraph of this Section 5.01.

(i) Capital Expenditures. Except as set forth on Pinnacle Disclosure Schedule 5.01, make any capital expenditures, other than capital expenditures that are less than $10,000 or arise in the Ordinary Course of Business.

(j) Governing Documents. Except as may be necessary to facilitate the Merger, amend PBSC Financial's Articles of Incorporation or Bylaws or any equivalent documents of PBSC Financial's Subsidiaries.

(k) Accounting Methods. Implement or adopt any change in its accounting principles, practices or methods, other than as may be required by applicable Laws or GAAP.

(l) Contracts. Except as set forth on Pinnacle Disclosure Schedule 5.01, enter into, amend, renew, modify or terminate any Pinnacle Material Contract, Pinnacle Lease or Insurance Policy.

(m) Claims. Other than settlement of foreclosure actions in the Ordinary Course of Business, enter into any settlement or similar agreement with respect to any action, suit,

proceeding, order or investigation to which PBSC Financial or any of its Subsidiaries is or becomes a party after the date of this Agreement, which settlement or agreement involves payment by PBSC Financial or any of its Subsidiaries of an amount which exceeds $25,000 individually or $50,000 in the aggregate and/or would impose any material restriction on the business of PBSC Financial or any of its Subsidiaries.

(n) Banking Operations. Except as set forth on Pinnacle Disclosure Schedule 5.01, enter into any new material line of business; change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking and operating policies, except as required by applicable Law, regulation or policies imposed by any Governmental Authority; make application for the opening, relocation or closing of any, or open, relocate or close any, branch office, loan production or servicing facility or automated banking facility.

(o) Derivative Transactions. Except in the Ordinary Course of Business and pursuant to the regular operation of Pinnacle Bank's "Smart Loan" product, enter into any Derivative Transaction.

(p) Indebtedness. Except with the express written consent of Carolina Alliance, incur, modify, extend or renegotiate any indebtedness for borrowed money or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other Person (other than creation of deposit liabilities, purchases of federal funds, obtain Federal Home Loan Bank advances, and sales of certificates of deposit, which are in each case in the Ordinary Course of Business).

(q) Investment Securities. Except with the express written consent of Carolina Alliance, acquire (other than (i) by way of foreclosures or acquisitions in a bona fide fiduciary capacity or (ii) in satisfaction of debts previously contracted in good faith), sell or otherwise dispose of any debt security or equity investment, unless such acquisition, sale or disposal is consistent with Pinnacle policy and its Ordinary Course of Business, nor classify any security now held in or subsequently purchased for Pinnacle's investment portfolio as other than "available for sale," as that term is used in ASC 320.

(r) Deposits. Except in the Ordinary Course of Business, make any changes to deposit pricing that are not consented to in writing by Carolina Alliance; *provided however*, Carolina Alliance shall be deemed to have consented to a proposed change in deposit pricing if it does not object within a review period of three (3) business days following the date of delivery of notice of such proposed change in deposit pricing.

(s) Loans. Except for loans or extensions of credit approved and/or committed as of the date hereof that are listed on Pinnacle Disclosure Schedule 5.01, make, renew, renegotiate, increase, extend or modify any (A) unsecured Loan over $250,000, (B) loan over $250,000 secured by other than a first lien, (C) loan over $750,000 in excess of FFIEC regulatory guidelines relating to loan to value ratios, or (D) any secured loan over $1,000,000, unless any

such loan or extension of credit has been expressly consented to in writing by Carolina Alliance; *provided however*, Carolina Alliance shall be deemed to have consented to any such proposed loan or extension of credit if it does not object within a review period of three (3) business days following the date of delivery of notice of such proposed loan or extension of credit.

(t) Investments in Real Estate. Make any investment or commitment to invest in real estate or in any real estate development project; *provided*, *however*, that nothing in this section shall prohibit Pinnacle from foreclosing on property, or accepting a deed in lieu thereof, *provided* Pinnacle does not invest or commit to invest in real estate or in any real estate development, including any foreclosed property.

(u) Taxes. Except as required by applicable law:

(i) Make or change any material Tax election (including but not limited to be taxed as a subchapter S corporation), file any material amended Tax Return, enter into any material closing agreement, settle or compromise any material liability with respect to Taxes, agree to any material adjustment of any Tax attribute, file any claim for a material refund of Taxes, or consent to any extension or waiver of the limitation period applicable to any material Tax claim or assessment, *provided* that, for purposes of this subsection (u), "material" shall mean affecting or relating to $25,000 or more in taxes or $50,000 or more of taxable income.

(ii) Knowingly take any action that would, or would reasonably be likely to, prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(v) Compliance with Agreements. Commit any act or omission which constitutes a material breach or default by PBSC Financial or any of its Subsidiaries under any agreement with any Governmental Authority or under any Pinnacle Material Contract, Pinnacle Lease or other material agreement or material license to which PBSC Financial or any of its Subsidiaries is a party or by which PBSC Financial or any of its Subsidiaries or their properties are bound or under which it or its assets, business, or operations receives benefits.

(w) Environmental Assessments. Foreclose on or take a deed or title to any real estate other than single-family residential properties without first reaching a mutual agreement with Carolina Alliance as to the need to conduct an ASTM International ("ASTM") 1527-13 Phase I Environmental Site Assessment of the property that satisfies the requirements of 40 CFR Part 312 ("Phase I"), or foreclose on or take a deed or title to any real estate other than single-family residential properties if the obtained environmental assessment indicates the presence or likely presence of any Hazardous Substances under conditions that indicate an existing release, a past release, or a material threat of a release of any Hazardous Substances into structures on the property or into the ground, ground water, or surface water of the property.

(x) Adverse Actions. Take any action or fail to take, or adopt any resolutions of its board of directors in support of, any action that is intended or is reasonably likely to result in (i) any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time at or prior to the Effective Time, (ii) any of the conditions to the Merger set forth in Article VI not being satisfied or (iii) a material violation of any provision of this Agreement, except, in each case, as may be required by applicable Law or regulation or as may be permitted by Section 5.09(f) of this Agreement.

(y) Common Stock Purchase. Directly or indirectly repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock.

(z) Commitments. Enter into any contract with respect to, or otherwise agree or commit to do, any of the foregoing.

(aa) Change in Requirement and Standards. Change in any material respects the credit policies and collateral eligibility requirements and standards of Pinnacle.

Section 5.02 Covenants of Carolina Alliance. During the period from the date of this Agreement (except where a different commencement date for the observance or performance of a covenant is specifically referenced in this Section 5.02) and continuing until the Effective Time, except as expressly contemplated or permitted by this Agreement or with the prior written consent of PBSC Financial and Pinnacle Bank, which prior written consent shall not be unreasonably withheld, conditioned or delayed, Carolina Alliance shall carry on its business, including the business of each of its Subsidiaries, only in the Ordinary Course of Business and consistent with prudent banking practice, and in compliance in all material respects with all applicable Laws. Without limiting the generality of the foregoing, Carolina Alliance and each of its Subsidiaries shall, in respect of loan loss provisioning, securities, portfolio management, compensation and other expense management and other operations which might impact Carolina Alliance's equity capital, operate only in the Ordinary Course of Business and, where specifically required in this 5.02, only with PBSC Financial and Pinnacle Bank's approval or mutual agreement. Carolina Alliance will use commercially reasonable efforts to (i) preserve its business organization intact, (ii) keep available to itself and Pinnacle the present services of the current officers and employees of Carolina Alliance and its Subsidiaries, (iii) preserve for itself and Pinnacle the goodwill of the customers of Carolina Alliance and others with whom business relationships exist, and (iv) use its commercially reasonable efforts to continue diligent collection efforts with respect to any delinquent loans and, to the extent within its control, not allow any material increase in delinquent loans. Without further limiting the generality of the foregoing provisions in this Section 5.02, and except as set forth in the CAB Disclosure Schedule or as otherwise expressly contemplated or permitted by this Agreement or consented to in writing by PBSC Financial and Pinnacle Bank, neither Carolina Alliance nor any of its Subsidiaries shall, subsequent to the date of this Agreement:

(a) Stock. Except as may be required by the valid exercise of Rights outstanding on the date hereof to purchase Carolina Alliance Common Stock, (i) issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its stock, any Rights, or any other securities (including units of beneficial ownership interest in any partnership

or limited liability company), or enter into any agreement with respect to the foregoing, other than as compensation to its directors pursuant to any previously approved director compensation plan, (ii) except as expressly permitted by this Agreement, accelerate the vesting of any existing Rights, or (iii) except as expressly permitted by this Agreement, change (or establish a record date for changing) the number of, or provide for the exchange of, shares of its stock, any securities (including units of beneficial ownership interest in any partnership or limited liability company) convertible into or exchangeable for any additional shares of stock, any Rights issued and outstanding prior to the Effective Time as a result of a stock split, stock dividend, recapitalization, reclassification, or similar transaction with respect to its outstanding stock or any other such securities.

(b) Dividends; Other Distributions. On or after the date of this Agreement, declare, set aside or pay any dividends on or make other distributions (whether in cash or otherwise) in respect of any of its capital stock other than quarterly dividends on its Series A Senior Non-Cumulative Perpetual Preferred Stock as such dividends become due and payable.

(c) Compensation; Employment Agreements, Etc. Enter into or amend or renew any employment, consulting, severance or similar agreements or arrangements with any director, officer or employee of Carolina Alliance or any of its Subsidiaries, or grant any salary or wage increase or increase any employee benefit or pay any incentive or bonus payments, except (i) normal increases in compensation to employees in the Ordinary Course of Business and pursuant to policies currently in effect, provided that such increases shall not result in an annual adjustment in total compensation of more than 4% for any individual or 3% in the aggregate for all employees of Carolina Alliance or any of its Subsidiaries other than as disclosed on CAB Disclosure Schedule Section 5.02, (ii) as may be required by Law, (iii) to satisfy contractual obligations existing or contemplated as of the date hereof, as previously disclosed to Forest Commercial and set forth on CAB Disclosure Schedule Section 5.02, and (iv) bonus payments in the Ordinary Course of Business and pursuant to policies and agreements currently in effect, provided that such payments shall not exceed the aggregate amount set forth on CAB Disclosure Schedule Section 5.02 and shall not be paid to any individual for whom such payment would be an "excess parachute payment" as defined in Section 280G of the Code.

(d) Hiring; Promotions. (i) Except as set forth on CAB Disclosure Schedule Section 5.02, hire any person as an employee of Carolina Alliance or any of its Subsidiaries, except for at-will employees at an annual rate of salary not to exceed $50,000 to fill vacancies that may arise from time to time in the Ordinary Course of Business, or (ii) promote any employee, except to satisfy contractual obligations existing as of the date hereof and set forth on CAB Disclosure Schedule Section 5.02, if any.

(e) Benefit Plans. Enter into, establish, adopt, amend, modify or terminate (except (i) as may be required by or to make consistent with applicable Law, subject to the provision of prior written notice to and consultation with respect thereto with Pinnacle, (ii) to satisfy contractual obligations existing as of the date hereof and set forth on CAB Disclosure Schedule Section 5.02, (iii) as previously disclosed to Pinnacle and set forth on CAB Disclosure Schedule Section 5.02, or (iv) as may be required pursuant to the terms of this Agreement) any Carolina Alliance Benefit Plan or other pension, retirement, stock option, stock purchase, savings, profit

sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement (or similar arrangement) related thereto, in respect of any current or former director, officer or employee of Carolina Alliance or any of its Subsidiaries.

(f) Transactions with Affiliates. Except pursuant to agreements or arrangements in effect on the date hereof and set forth on CAB Disclosure Schedule Section 5.02, pay, loan or advance any amount to, or sell, transfer or lease any properties or assets (real, personal or mixed, tangible or intangible) to, or enter into any agreement or arrangement with, any of its officers or directors or any of their immediate family members or any Affiliates or associates (as such terms are defined under the Exchange Act) of any of its officers or directors other than in the Ordinary Course of Business.

(g) Dispositions. Except in the Ordinary Course of Business, sell, transfer, mortgage, pledge, encumber or otherwise dispose of or discontinue any of its assets, deposits, business or properties or cancel or release any indebtedness owed to Carolina Alliance or any of its Subsidiaries.

(h) Acquisitions. Acquire (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the Ordinary Course of Business) all or any portion of the assets, business, deposits or properties of any other entity, except for purchases specifically approved by Pinnacle pursuant to any other applicable paragraph of this Section 5.02.

(i) Capital Expenditures. Except as set forth on CAB Disclosure Schedule Section 5.02, make any capital expenditures, other than capital expenditures of less than $10,000 or that arise in the Ordinary Course of Business.

(j) Governing Documents. Except as may be necessary to facilitate the Merger, amend Carolina Alliance's Articles of Incorporation or Bylaws.

(k) Accounting Methods. Implement or adopt any change in its accounting principles, practices or methods, other than as may be required by applicable Laws or GAAP.

(l) Contracts. Except as set forth on CAB Disclosure Schedule Section 5.02, enter into, amend, modify or terminate any Carolina Alliance Material Contract, Carolina Alliance Lease or Insurance Policy.

(m) Claims. Other than settlement of foreclosure actions in the Ordinary Course of Business, enter into any settlement or similar agreement with respect to any action, suit, proceeding, order or investigation to which Carolina Alliance or any of its Subsidiaries is or becomes a party after the date of this Agreement, which settlement or agreement involves payment by Carolina Alliance or any of its Subsidiaries of an amount which exceeds $50,000 individually or $100,000 in the aggregate and/or would impose any material restriction on the business of Carolina Alliance or any of its Subsidiaries.

(n) Banking Operations. Except as set forth on CAB Disclosure Schedule Section 5.02, enter into any new material line of business; change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking and operating policies, except as required by applicable Law, regulation or policies imposed by any Governmental Authority; make application for the opening, relocation or closing of any, or open, relocate or close any, branch office, loan production or servicing facility or automated banking facility.

(o) Indebtedness. Except with the express written consent of Pinnacle, incur, modify, extend or renegotiate any indebtedness for borrowed money or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other Person (other than creation of deposit liabilities, purchases of federal funds, obtain Federal Home Loan Bank Advances, and sales of certificates of deposit, which are in each case in the Ordinary Course of Business).

(p) Investment Securities. Except with the express written consent of Pinnacle, acquire (other than (i) by way of foreclosures or acquisitions in a bona fide fiduciary capacity or (ii) in satisfaction of debts previously contracted in good faith), sell or otherwise dispose of any debt security or equity investment, unless such acquisition, sale or disposal is consistent with Carolina Alliance policy and its Ordinary Course of Business, nor classify any security now held in or subsequently purchased for Carolina Alliance's investment portfolio as other than "available for sale," as that term is used in ASC 320.

(q) Deposits. Except in the Ordinary Court of Business, make any changes to deposit pricing that are not consented to in writing by Pinnacle Bank; *provided however*, Pinnacle Bank shall be deemed to have consented to a proposed change in deposit pricing if it does not object within a review period of three (3) business days following the date of delivery of notice of such proposed change in deposit pricing.

(r) Investments in Real Estate. Except for real estate purchased on its own account for bank operations, make any investment or commitment to invest in real estate or in any real estate development project; *provided*, *however*, that nothing in this section shall prohibit Carolina Alliance from foreclosing on property, or accepting a deed in lieu thereof, *provided* Carolina Alliance does not invest or commit to invest in real estate or in any real estate development, including any foreclosed property.

(s) Taxes. Except as required by applicable law:

(i) Make or change any material Tax election, file any material amended Tax Return, enter into any material closing agreement, settle or compromise any material liability with respect to Taxes, agree to any material adjustment of any Tax attribute, file any claim for a material refund of Taxes, or consent to any extension or waiver of the limitation period applicable to any material Tax claim or assessment, provided that, for purposes of this subsection (u), "material" shall mean affecting or relating to $100,000 or more in taxes or $250,000 or more of taxable income.

(ii) Knowingly take any action that would, or would be reasonably likely to, prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(t) Compliance with Agreements. Commit any act or omission which constitutes a material breach or default by Carolina Alliance under any agreement with any Governmental Authority or under any Carolina Alliance Material Contract, Carolina Alliance Lease or other material agreement or material license to which Carolina Alliance is a party or by which it or its properties are bound or under which it or its assets, business, or operations receives benefits.

(u) Environmental Assessments. Foreclose on or take a deed or title to any real estate other than single-family residential properties without first reaching a mutual agreement with Pinnacle as to the need to conduct an ASTM Phase I, or foreclose on or take a deed or title to any real estate other than single-family residential properties if the obtained environmental assessment indicates the presence or likely presence of any Hazardous Substances under conditions that indicate an existing release, a past release, or a material threat of a release of any Hazardous Substances into structures on the property or into the ground, ground water, or surface water of the property.

(v) Adverse Actions. Take any action or fail to take, or adopt any resolutions of its board of directors in support of, any action that is intended or is reasonably likely to result in (i) any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time at or prior to the Effective Time, (ii) any of the conditions to the Merger set forth in Article VI not being satisfied or (iii) a material violation of any provision of this Agreement, except, in each case, as may be required by applicable Law or regulation.

(w) Common Stock Purchase. Directly or indirectly repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock.

(x) Commitments. Enter into any contract with respect to, or otherwise agree or commit to do, any of the foregoing.

(y) Change in Requirement and Standards. Change in any material respects the credit policies and collateral eligibility requirements and standards of Carolina Alliance.

Section 5.03 Commercially Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the Parties to this Agreement agrees to use commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws, so as to permit consummation of the transactions contemplated hereby as promptly as practicable, including the satisfaction of the conditions set forth in Article VI hereof, and shall cooperate fully with the other Parties hereto to that end.

Section 5.04 Shareholder Approval.

(a) PBSC Financial agrees to take, in accordance with applicable Law, the Articles of Incorporation and Bylaws of PBSC Financial, all action necessary to convene an annual or special meeting of its shareholders to consider and vote upon the approval of this Agreement and any other matters required to be approved by PBSC Financial's shareholders in order to permit consummation of the transactions contemplated hereby (including any adjournment or postponement, the "Pinnacle Meeting") and shall take reasonable actions to solicit such approval by such shareholders. PBSC Financial agrees to use commercially reasonable efforts to convene the Pinnacle Meeting within 120 days following the date of this Agreement. Except to the extent provided otherwise in Section 5.09, the board of directors of PBSC Financial shall at all times prior to and during the Pinnacle Meeting recommend approval of this Agreement by the shareholders of PBSC Financial and shall not withhold, withdraw, amend, modify, change or qualify such recommendation in a manner adverse in any respect to the interests of Carolina Alliance or take any other action or make any other public statement inconsistent with such recommendation. In the event that there is present at such meeting, in person or by proxy, sufficient favorable voting power to secure the Requisite PBSC Financial Shareholder Approval, PBSC Financial will not adjourn or postpone the Pinnacle Meeting unless PBSC Financial is advised by counsel that failure to do so would result in a breach of the fiduciary duties of PBSC Financial's board of directors. PBSC Financial shall keep Carolina Alliance updated with respect to the proxy solicitation results in connection with the Pinnacle Meeting as reasonably requested by Carolina Alliance.

(b) Carolina Alliance agrees to take, in accordance with applicable Law, the Articles of Incorporation and Bylaws of Carolina Alliance, all action necessary to convene a special meeting of its shareholders to consider and vote upon the approval of this Agreement and any other matters required to be approved by Carolina Alliance's shareholders in order to permit consummation of the transactions contemplated hereby (including any adjournment or postponement, the "Carolina Alliance Meeting") and shall take all lawful action to solicit such approval by such shareholders. Carolina Alliance agrees to use commercially reasonable efforts to convene the Carolina Alliance Meeting within 120 days following the date of this Agreement. Except to the extent provided otherwise in Section 5.09, the board of directors of Carolina Alliance shall at all times prior to and during the Carolina Alliance Meeting recommend approval of this Agreement by the shareholders of Carolina Alliance and shall not withhold, withdraw, amend, modify, change or qualify such recommendation in a manner adverse in any respect to the interests of Pinnacle or take any other action or make any other public statement inconsistent with such recommendation. In the event that there is present at such meeting, in person or by proxy, sufficient favorable voting power to secure the Requisite Carolina Alliance Shareholder Approval, Carolina Alliance will not adjourn or postpone the Carolina Alliance Meeting unless Carolina Alliance is advised by counsel that failure to do so would result in a breach of the fiduciary duties of Carolina Alliance's board of directors. Carolina Alliance shall keep Pinnacle updated with respect to the proxy solicitation results in connection with the Carolina Alliance Meeting as reasonably requested by Pinnacle.

(c) Pinnacle Bank agrees to take, in accordance with applicable Law, the Articles of Incorporation and Bylaws of Pinnacle Bank, all action necessary to obtain the Requisite Pinnacle Bank Shareholder Approval. Immediately following the execution of this Agreement and the determination by the board of directors of Pinnacle Bank that this Agreement and the

transactions contemplated hereby are advisable, fair, and in the best interests of Pinnacle Bank and its shareholders, PBSC Financial, in its capacity as the sole shareholder of Pinnacle Bank, shall have, at a meeting of the sole shareholder or a written consent in lieu thereof, adopted and approved this Agreement and any other matters required to be approved by PBSC Financial's shareholders in order to permit consummation of the transactions contemplated hereby.

Section 5.05 Joint Proxy Statement/Offering Circular.

(a) Each of Carolina Alliance and PBSC Financial and their respective Subsidiaries shall cooperate and use their respective commercially reasonable efforts to obtain any necessary federal securities Law and state securities Law or "blue sky" permits and approvals required to carry out the transactions contemplated by this Agreement. The Parties agree to cooperate with each Parties' counsel and accountants in requesting and obtaining appropriate opinions, consents and letters from its independent auditors in connection with the Joint Proxy Statement. PBSC Financial and Carolina Alliance, each at its own expense, shall promptly mail or cause to be mailed the Joint Proxy Statement/Offering Circular to its shareholders.

(b) The Joint Proxy Statement/Offering Circular shall comply as to form in all material respects with Rule 10b-5 of the Exchange Act and the FDIC Policy Statement regarding Use of Offering Circulars in Connection with Public Distribution of Bank Securities. If at any time prior to the Carolina Alliance Meeting and the Pinnacle Meeting there shall occur any event that should be disclosed in an amendment or supplement to the Joint Proxy Statement/Offering Circular, PBSC Financial and Carolina Alliance shall use their commercially reasonable efforts to promptly prepare and mail to PBSC Financial shareholders and Carolina Alliance shareholders such amendment or supplement.

Section 5.06 Regulatory Filings; Consents.

(a) Each of Carolina Alliance and PBSC Financial and their respective Subsidiaries shall cooperate and use their respective commercially reasonable efforts (i) to prepare all documentation (including the Joint Proxy Statement/Offering Circular), to effect all filings, to obtain all permits, consents, approvals and authorizations of all third parties and Governmental Authorities necessary to consummate the transactions contemplated by this Agreement, including, without limitation, the Regulatory Approvals and all other consents and approvals of a Governmental Authority required to consummate the Merger in the manner contemplated herein, (ii) to comply with the terms and conditions of such permits, consents, approvals and authorizations and (iii) to cause the transactions contemplated by this Agreement to be consummated as expeditiously as practicable; *provided*, *however*, that in no event shall any Party be required, and Carolina Alliance, PBSC Financial and their respective Subsidiaries shall not be permitted (without the other Party's written consent in its sole discretion), to (i) take any action, or commit to take any action, or agree to any condition or restriction, involving Carolina Alliance, PBSC Financial or any of their respective Subsidiaries pursuant to this Section 5.06 or otherwise in connection with obtaining the foregoing actions, nonactions, permits, consents, authorizations, orders, clearances, waivers or approvals, that would have, or would be reasonably likely to have, individually or in the aggregate, a Material Adverse Effect in respect of any Party and its Subsidiaries, taken as a whole, in each case measured on a scale relative to the other Party taken as a whole (including, for the avoidance of doubt, any determination by an Regulatory

Agency or other Governmental Authority that the Merger may not be consummated as contemplated herein, including simultaneously with the Effective Time (any of the foregoing, a "Burdensome Condition"). Carolina Alliance will not withdraw any application seeking Regulatory Approval without the prior written consent of Pinnacle. Carolina Alliance and PBSC Financial will furnish each other and each other's counsel with all information concerning themselves, their Subsidiaries, directors, trustees, officers and shareholders and such other matters as may be necessary or advisable in connection with the Joint Proxy Statement/Offering Circular and any application, petition or any other statement or application made by or on behalf of Carolina Alliance or PBSC Financial to any Governmental Authority in connection with the transactions contemplated by this Agreement. Each Party hereto shall have the right to review and approve in advance all characterizations of the information relating to such Party and any of its Subsidiaries that appear in any filing made in connection with the transactions contemplated by this Agreement with any Governmental Authority. In addition, Carolina Alliance and PBSC Financial shall each furnish to the other for review a copy of each such filing made in connection with the transactions contemplated by this Agreement with any Governmental Authority prior to its filing.

(b) PBSC Financial will notify Carolina Alliance promptly and shall promptly furnish Carolina Alliance with copies of notices or other communications received by PBSC Financial or any of its Subsidiaries of (i) any communication from any Person alleging that the consent of such Person (or another Person) is or may be required in connection with the transactions contemplated by this Agreement (and the response thereto from PBSC Financial, its Subsidiaries or its representatives), (ii) subject to applicable Laws and the instructions of any Governmental Authority, any communication from any Governmental Authority in connection with the transactions contemplated by this Agreement (and the response thereto from PBSC Financial, its Subsidiaries or its representatives), and (iii) any legal actions threatened or commenced against or otherwise affecting PBSC Financial or any of its Subsidiaries that are related to the transactions contemplated by this Agreement (and the response thereto from PBSC Financial, its Subsidiaries or its representatives). With respect to any of the foregoing, PBSC Financial will consult with Carolina Alliance and its representatives as often as practicable under the circumstances so as to permit PBSC Financial and Carolina Alliance and their respective representatives to cooperate to take appropriate measures to avoid or mitigate any adverse consequences that may result from any of the foregoing.

(c) Carolina Alliance will notify Pinnacle promptly and shall promptly furnish Pinnacle with copies of notices or other communications received by Carolina Alliance or any of its Subsidiaries of (i) any communication from any Person alleging that the consent of such Person (or other Person) is or may be required in connection with the transactions contemplated by this Agreement (and the response thereto from Carolina Alliance or its representatives), (ii) subject to applicable Laws and the instructions of any Governmental Authority, any communication from any Governmental Authority in connection with the transactions contemplated by this Agreement (and the response thereto from Carolina Alliance or its representatives), and (iii) any legal actions threatened or commenced against or otherwise affecting Carolina Alliance any of its Subsidiaries that are related to the transactions contemplated by this Agreement (and the response thereto from Carolina Alliance, its Subsidiaries or its representatives). With respect to any of the foregoing, Carolina Alliance will

consult with Pinnacle and its representatives as often as practicable under the circumstances so as to permit Carolina Alliance and Pinnacle and their respective representatives to cooperate to take appropriate measures to avoid or mitigate any adverse consequences that may result from any of the foregoing.

(d) Carolina Alliance shall make in a timely fashion any and all market notifications that may be required by FINRA relating to prior to the Merger and shall provide all information required for trading on the OTCQB.

Section 5.07 Publicity. Carolina Alliance and Pinnacle shall consult with each other before issuing any press release with respect to this Agreement or the transactions contemplated hereby and shall not issue any such press release or make any such public statement without the prior consent of the other Party, which shall not be unreasonably delayed or withheld; *provided*, *however*, that a Party may, without the prior consent of the other Party (but after such consultation, to the extent practicable in the circumstances), issue such press release or make such public statements as may upon the advice of outside counsel be required by Law. Without limiting the reach of the preceding sentence, Carolina Alliance and Pinnacle shall (i) cooperate to develop all public announcement materials, and (ii) make appropriate management available at presentations related to the transactions contemplated by this Agreement as reasonably requested by the other. In addition, PBSC Financial and its Subsidiaries shall coordinate with Carolina Alliance regarding all communications with customers, suppliers, employees, shareholders, and the community in general related to the transactions contemplated hereby.

Section 5.08 Access; Information.

(a) Pinnacle agrees that upon reasonable notice and subject to applicable Laws relating to the exchange of information, Pinnacle shall afford Carolina Alliance and its officers, employees, counsel, accountants and other authorized representatives such access during normal business hours at any time and from time to time throughout the period prior to the Effective Time to PBSC Financial's and its Subsidiaries' books, records (including, without limitation, Tax Returns and work papers of independent auditors), properties and personnel and to such other information relating to them as Carolina Alliance may reasonably request and, during such period, shall from time to time furnish promptly to Carolina Alliance all information concerning the business, properties and personnel of PBSC Financial and its Subsidiaries as Carolina Alliance may reasonably request. Pinnacle shall not be required to provide access to or to disclose information where such access or disclosure would jeopardize the attorney-client privilege or contravene any Law, order, judgment, decree, fiduciary duty or binding agreement entered into before the date of this Agreement.

(b) No investigation by Carolina Alliance or its representatives shall be deemed to modify or waive any representation, warranty, covenant or agreement of PBSC Financial or Pinnacle Bank set forth in this Agreement, or the conditions to the respective obligations of Carolina Alliance, PBSC Financial and Pinnacle Bank to consummate the transactions contemplated hereby.

Section 5.09 No Solicitation.

(a) PBSC Financial agrees that neither it nor any of its Subsidiaries, nor any of its and their respective officers, directors, employees, agents, investment bankers, financial advisors, attorneys, accountants and other retained representatives (each, a "Representative") shall, and that it shall cause its Subsidiaries, and its and their respective Representatives, not to, directly or indirectly (i) initiate, solicit, knowingly encourage or facilitate any inquiries or the making of any proposal or offer with respect to, or a transaction to effect, a merger, reorganization, share exchange, consolidation, sale of assets, sale of shares of capital stock (including by way of tender offer), business combination, recapitalization, liquidation, dissolution or similar transaction involving PBSC Financial or any of its Subsidiaries that, if consummated, would constitute an Alternative Transaction (any of the foregoing inquiries, proposals or offers being referred to herein as an "Acquisition Proposal"); (ii) participate in any discussions with or provide any confidential information or data to any Person (or Representative of such Person) relating to an Acquisition Proposal or Alternative Transaction, or engage in any negotiations concerning an Acquisition Proposal or Alternative Transaction, or knowingly facilitate any effort or attempt to make or implement an Acquisition Proposal or Alternative Transaction; (iii) approve or execute or enter into any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other Contract related to any Acquisition Proposal or Alternative Transaction; or (iv) propose to its shareholders or agree to do any of the foregoing.

(b) As used in this Agreement, "Alternative Transaction" means, with respect to PBSC Financial any of (i) a transaction pursuant to which any Person (or group of Persons) other than Carolina Alliance or its Affiliates directly or indirectly acquires or would acquire more than 20% of the outstanding shares of PBSC Financial Common Stock or outstanding voting power of PBSC Financial or more than 20% of the outstanding shares or voting power of any other series or class of capital stock of PBSC Financial that would be entitled to a vote with respect to the Merger, or pursuant to a tender offer or exchange offer or otherwise; (ii) a merger, share exchange, consolidation or other business combination involving PBSC Financial (other than the Merger); (iii) any transaction pursuant to which any Person (or group of Persons) other than Carolina Alliance or its Affiliates acquires or would acquire control of assets of PBSC Financial or any of its Subsidiaries representing more than 20% of the fair market value of all the assets, deposits, net revenues or net income of PBSC Financial and its Subsidiaries, taken as a whole, immediately prior to such transaction; or (iv) any other consolidation, business combination, recapitalization or similar transaction involving PBSC Financial or any of its Subsidiaries, other than the transactions contemplated by this Agreement, as a result of which the holders of shares of PBSC Financial Common Stock immediately prior to such transaction do not, in the aggregate, own at least 80% of each of the outstanding shares of PBSC Financial Common Stock and the outstanding voting power of the surviving or resulting entity in such transaction immediately after the consummation thereof in substantially the same proportion as such holders held the shares of PBSC Financial Common Stock immediately prior to the consummation thereof.

(c) Notwithstanding the foregoing, the board of directors of PBSC Financial shall be permitted, prior to its meeting of shareholders to be held pursuant to Section 5.04, and subject to

compliance with the other terms of this Section 5.09 and to first entering into a confidentiality agreement having provisions that are no less favorable to such Party than those contained in the Confidentiality Agreement, to engage in discussions and negotiations with, or provide any nonpublic information or data to, any Person in response to an unsolicited bona fide written Acquisition Proposal by such Person first made after the date of this Agreement (that did not result from a breach of this Section 5.09) and which the board of directors of PBSC Financial concludes in good faith (after consultation with its outside legal counsel and financial advisors) constitutes or is reasonably likely to result in a Superior Proposal, if and only to the extent that the directors of PBSC Financial conclude in good faith (after consultation with their outside legal counsel) that failure to do so would be reasonably likely to violate their fiduciary duties under applicable Law. PBSC Financial shall provide Carolina Alliance with a copy of any nonpublic information or data provided to any Person pursuant to the prior sentence prior to or simultaneously with furnishing such information to such Person.

(d) PBSC Financial shall notify Carolina Alliance promptly after receipt of any Acquisition Proposal (but in no event later than 24 hours after an Executive Officer of Pinnacle has actual knowledge of the receipt of an Acquisition Proposal), or any request for nonpublic information relating to PBSC Financial or any of its Subsidiaries by any Person that informs PBSC Financial or any of its Subsidiaries that it is considering making, or has made, an Acquisition Proposal, or any inquiry from any Person seeking to have discussions or negotiations with PBSC Financial relating to a possible Acquisition Proposal or Alternative Transaction. Such notice shall be made orally and confirmed in writing (with such oral notice being sufficient to satisfy the timing requirements for such notice), and shall indicate the identity of the Person making the Acquisition Proposal, inquiry or request and the material terms and conditions of any inquiries, proposals or offers (including a copy thereof if in writing and any related documentation or correspondence). PBSC Financial shall also promptly, and in any event within 24 hours, notify Carolina Alliance, orally and in writing, if it enters into discussions or negotiations concerning any Acquisition Proposal or Alternative Transaction or provides nonpublic information or data to any Person in accordance with Section 5.09(c) and keep Carolina Alliance informed of the status and terms of any such proposals, offers, inquiries, discussions or negotiations on a current basis, including by providing a copy of all material documentation or correspondence relating thereto.

(e) Except as provided in Section 5.09(f), neither the board of directors of PBSC Financial nor any committee thereof shall withhold, withdraw or modify in any manner adverse to Carolina Alliance, or propose publicly to withhold, withdraw or modify in any manner adverse to Carolina Alliance, the approval, recommendation or declaration of advisability by the board of directors of PBSC Financial or any such committee thereof with respect to this Agreement or the transactions contemplated hereby (a "Change in PBSC Financial Recommendation").

(f) Notwithstanding anything in this Agreement to the contrary, with respect to an Acquisition Proposal, the board of directors of PBSC Financial may make a Change in PBSC Financial Recommendation if and only if (A) an unsolicited bona fide written Acquisition Proposal (that did not result from a breach of this Section 5.09) is made to PBSC Financial by a third party, and such Acquisition Proposal is not withdrawn, (B) the board of directors of PBSC Financial has concluded in good faith (after consultation with its outside legal counsel and

financial advisors) that such Acquisition Proposal constitutes a Superior Proposal, (C) the board of directors of PBSC Financial have concluded in good faith (after consultation with their outside legal counsel) that failure to do so would be reasonably likely to violate their fiduciary duties under applicable Law, (D) five Business Days shall have elapsed since PBSC Financial has given written notice to Carolina Alliance advising Carolina Alliance that PBSC Financial intends to take such action and specifying in reasonable detail the reasons therefor, including the terms and conditions of any such Acquisition Proposal that is the basis of the proposed action (a "Notice of Recommendation Change") (it being understood that any amendment to any material term of such Acquisition Proposal shall require a new Notice of Recommendation Change, except that, in such case, the Business Day period referred to in this clause (D) and in clauses (E) and (F) shall be reduced to three Business Days following the giving of such new Notice of Recommendation Change), (E) during such five Business Day period, PBSC Financial has considered and, at the reasonable request of Carolina Alliance, engaged in good faith discussions with Carolina Alliance regarding, any adjustment or modification of the terms of this Agreement proposed by Carolina Alliance, and (F) the board of directors of PBSC Financial, following such five Business Day period, again reasonably determine in good faith (after consultation with its outside legal counsel and its financial advisors, and taking into account any adjustment or modification of the terms of this Agreement proposed by Carolina Alliance) that such Acquisition Proposal nonetheless continues to constitute a Superior Proposal and that failure to take such action would violate their fiduciary duties under applicable Law.

(g) For purposes of this Agreement, "Superior Proposal" for PBSC Financial means an unsolicited, bona fide written Acquisition Proposal made by a third Person (or group of Persons acting in concert within the meaning of Rule 13d-5 under the Exchange Act) to acquire, directly or indirectly, pursuant to a tender offer, exchange offer, merger, consolidation or other business combination or Acquisition Transaction, (A) all or substantially all of the assets of PBSC Financial, or (B) all of the outstanding voting securities of PBSC Financial and, which the board of directors of PBSC Financial has in good faith determined (taking into account, among other things, (1) its consultation with its outside legal counsel and its financial advisors and (2) the terms and conditions of such Acquisition Proposal and this Agreement (as it may be proposed to be amended by Carolina Alliance)), to be more favorable, from a financial point of view, to PBSC Financial's shareholders than the transactions contemplated by this Agreement (as it may be proposed to be amended by Carolina Alliance) and to be reasonably capable of being consummated on the terms proposed, taking into account all other legal, financial, regulatory and other aspects of such Acquisition Proposal and the Person making the proposal.

(h) Nothing contained in this Section 5.09 shall prohibit PBSC Financial or its Subsidiaries from issuing a "stop, look and listen" statement pending disclosure of its position thereunder; *provided*, *however*, that compliance with such rules shall not in any way limit or modify the effect that any action taken pursuant to such rules has under any other provision of this Agreement, including Section 7.01(g), as applicable; *provided*, *further*, that any such disclosure that addresses or relates to the approval, recommendation or declaration of advisability by the board of directors of PBSC Financial with respect to this Agreement or an Acquisition Proposal or Alternative Transaction shall be deemed to be a Change in PBSC Financial Recommendation unless the board of directors of PBSC Financial, in connection with such communication publicly states that its recommendation with respect to this Agreement and

the transactions contemplated hereby has not changed or refers to the prior recommendation of PBSC Financial, without disclosing any Change in PBSC Financial Recommendation.

(i) PBSC Financial agrees that it (i) will and will cause its Subsidiaries, and its and their Representatives to, cease immediately and terminate any and all existing activities, discussions or negotiations with any third parties conducted heretofore with respect to any Acquisition Proposal or Alternative Transaction and (ii) will not release any third party from, or waive any provisions of, any confidentiality or standstill agreement to which it or any of its Subsidiaries is a party with respect to any Acquisition Proposal or Alternative Transaction. PBSC Financial agrees that it will promptly inform its and its Subsidiaries' respective Representatives of the obligations undertaken in this Section 5.09.

(j) PBSC Financial shall not submit to the vote of its shareholders any Acquisition Proposal or Alternative Transaction other than this Agreement and the Merger prior to the termination of this Agreement.

Section 5.10 Indemnification.

(a) From and after the Effective Time, Carolina Alliance shall indemnify, defend and hold harmless the present and former directors, officers and employees of PBSC Financial and its Subsidiaries (the "Indemnified Parties"), against all costs or expenses (including reasonable attorney's fees), judgments, fines, losses, claims, damages, settlements or liabilities as incurred, in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative (each a "Claim"), arising out of actions or omissions of such Persons in the course of performing their duties for Pinnacle occurring at or before the Effective Time (including the transactions contemplated hereby), to the same extent as such persons are indemnified or have the right to advancement of expenses pursuant to the Articles of Incorporation and Bylaws of PBSC Financial or its Subsidiaries, in effect on the date of this Agreement with PBSC Financial and its Subsidiaries.

(b) Any Indemnified Party wishing to claim indemnification under this Section 5.10 shall promptly notify Carolina Alliance upon learning of any Claim, *provided* that failure to so notify shall not affect the obligation of Carolina Alliance under this Section 5.10, unless, and only to the extent that, Carolina Alliance is actually and materially prejudiced in the defense of such Claim as a consequence. In the event of any such Claim (whether arising before or after the Effective Time), (i) Carolina Alliance shall have the right to assume the defense thereof and Carolina Alliance shall not be liable to such Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Parties in connection with the defense thereof except that if Carolina Alliance elects not to assume such defense or counsel for the Indemnified Parties advises that there are substantive issues which raise conflicts of interest between Carolina Alliance and the Indemnified Parties, the Indemnified Parties may retain counsel satisfactory to them, and Carolina Alliance shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefore are received; *provided*, that Carolina Alliance shall be obligated pursuant to this paragraph (b) to pay for only one firm of counsel for all Indemnified Parties in any jurisdiction, (ii) the Indemnified Parties will cooperate in the defense of any such matter, (iii) Carolina Alliance shall not be liable for any settlement effected without its prior written consent and (iv) Carolina Alliance shall have

no obligation hereunder in the event that a federal or state banking agency or a court of competent jurisdiction shall determine that indemnification of an Indemnified Party in the manner contemplated hereby is prohibited by applicable laws and regulations.

(c) For a period of six years following the Effective Time, the Surviving Entity shall provide director's and officer's liability insurance (herein, "D&O Insurance") that serves to reimburse the present and former officers and directors of PBSC Financial or its Subsidiaries (determined as of the Effective Time) with respect to claims against such directors and officers arising from facts or events occurring before the Effective Time (including the transactions contemplated hereby), which insurance will contain at least the same coverage and amounts, and contain terms and conditions no less advantageous to the Indemnified Party, as that coverage currently provided by Pinnacle; *provided* that if Carolina Alliance is unable to maintain or obtain the insurance called for by this Section 5.10, Carolina Alliance will provide as much comparable insurance as is reasonably available; and *provided, further,* that officers and directors of PBSC Financial or its Subsidiaries may be required to make application and provide customary representations and warranties to the carrier of the D&O Insurance for the purpose of obtaining such insurance; and *provided, further*, that in satisfaction of its obligations under this paragraph (c), Carolina Alliance may require Pinnacle to purchase, prior to but effective as of the Effective Time, tail insurance providing such coverage prior to Closing. Whether or not Carolina Alliance or Pinnacle shall procure such coverage, in no event shall Pinnacle expend, or Carolina Alliance or the Surviving Entity be required to expend for such tail insurance a premium amount, for all six years of coverage obtained, in excess of an amount equal to 300% of the annual premiums paid by Pinnacle for D&O Insurance in effect as of the date of this Agreement (the "Maximum D&O Tail Premium"). If the cost of such tail insurance exceeds the Maximum D&O Tail Premium, Pinnacle, Carolina Alliance or the Surviving Entity, as applicable, shall obtain tail insurance coverage or a separate tail insurance policy with the greatest coverage available for a cost not exceeding the Maximum D&O Tail Premium.

(d) If Carolina Alliance or any of its successors and assigns (i) shall consolidate with or merge into any other corporation or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) shall transfer all or substantially all of its property and assets to any individual, corporation or other entity, then, in each such case, proper provision shall be made so that the successors and assigns of Carolina Alliance and its Subsidiaries shall assume the obligations set forth in this Section 5.10.

The provisions of this Section 5.10 are intended to be for the benefit of, and shall be enforceable by each Indemnified Party, and each Indemnified Party's heirs and personal and legal representatives.

Section 5.11 Employees; Benefit Plans.

(a) All Pinnacle Employees to whom Carolina Alliance in its sole discretion offers employment at or prior to the Effective Time shall be retained as "at will" employees after the Effective Time as employees of Carolina Alliance so long as such Pinnacle Employees accept the terms and conditions of employment specified by Carolina Alliance; *provided* that continued retention by Carolina Alliance of such employees subsequent to the Effective Time shall be subject to Carolina Alliance's normal and customary employment procedures and practices,

including customary background screening and evaluation procedures, and satisfactory employment performance. In addition, Pinnacle agrees, upon Carolina Alliance's reasonable request, to facilitate discussions between Carolina Alliance and Pinnacle Employees a reasonable time in advance of the Closing Date regarding employment, consulting or other arrangements to be effective prior to or following the Effective Time. Prior to the Effective Time, any interaction between Carolina Alliance and Pinnacle Employees shall be coordinated by Pinnacle.

(b) Pinnacle Employees (other than those listed on Pinnacle Disclosure Schedule 5.11 who are parties to an employment, change of control or other type of agreement which provides for severance) as of the date of the Agreement who remain employed by PBSC Financial or any of its Subsidiaries as of the Effective Time and whose employment is terminated by Carolina Alliance (absent termination for cause as determined by the employer) within 180 days after the Effective Time shall receive severance pay equal to two weeks of base weekly pay for each completed year of employment service commencing with any such employee's most recent hire date with PBSC Financial or any of its Subsidiaries and ending with such employee's termination date with Carolina Alliance, with a maximum payment equal to 12 weeks of base pay. Such severance payment will be made within 30 days after such employee's termination date. Such severance payments will be in lieu of any severance pay plans that may be in effect at PBSC Financial or any of its Subsidiaries prior to the Effective Time. No officer or employee of PBSC Financial or any Subsidiary is, or shall be, entitled to receive duplicative severance payments and benefits under (i) an employment or severance agreement; (ii) a severance or change of control plan; (iii) this section; or (iv) any other program or arrangement.

(c) Not later than five Business Days prior to the Closing Date, Pinnacle shall (i) take all action required to cause any Pinnacle Benefit Plan that has liabilities in respect of its participants, to be fully funded to the extent necessary to pay out all required benefits, (ii) unless notified by Carolina Alliance to the contrary, terminate every Pinnacle Benefit Plan as of the Closing Date and (iii) pay out or commence the process to pay out any vested benefits under every such terminated Pinnacle Benefit Plan to participating and eligible Pinnacle Employees in such form or forms as required or permitted by the terms of such Plans (as they may be permissibly amended by Pinnacle) and as permitted or required under applicable Law. Pinnacle Employees shall be entitled to participate in Carolina Alliance Benefit Plans to the same extent as similarly-situated employees of Carolina Alliance (it being understood that inclusion of Pinnacle Employees in the Carolina Alliance Benefit Plans may occur at different times with respect to different plans) or as required by applicable law. To the extent feasible under any Carolina Alliance Benefit Plans, Pinnacle Employees shall be given credit for prior service or employment with Pinnacle and be eligible for any increased benefits under such Carolina Alliance Benefit Plans that would apply to such employees as if they had been eligible for such benefits as of the Effective Time, with credit for the length of service or employment with Pinnacle. Notwithstanding the foregoing, Carolina Alliance may amend or terminate any Carolina Alliance Benefit Plan at any time in its sole discretion (provided that no such amendment or termination shall treat former employees of Pinnacle any differently than other employees of Carolina Alliance).

(d) If employees of PBSC Financial or any of its Subsidiaries become eligible to participate in a medical, dental or health plan of Carolina Alliance upon termination of such plan

of PBSC Financial or any of its Subsidiaries, Carolina Alliance shall use commercially reasonable efforts to cause each such plan to (i) waive any preexisting condition limitations to the extent such conditions are covered under the applicable medical, health or dental plans of Carolina Alliance, (ii) provide full credit under such plans for any deductible, co-payment and out-of-pocket expenses incurred by the employees and their beneficiaries during the portion of the calendar year prior to such participation and (iii) waive any waiting period limitation or evidence of insurability requirement which would otherwise be applicable to such employee on or after the Effective Time, in each case to the extent such employee had satisfied any similar limitation or requirement under an analogous plan prior to the Effective Time for the plan year in which the Effective Time occurs.

(e) Except to the extent otherwise expressly provided in this Section 5.11, Carolina Alliance shall honor, and the Surviving Entity or Carolina Alliance shall be obligated to perform, all employment, severance, deferred compensation, retirement or "change-in-control" agreements, plans or policies of Pinnacle, but only if such obligations, rights, agreements, plans or policies are set forth in Pinnacle Disclosure Schedule 5.11. Carolina Alliance acknowledges that the consummation of the Merger will constitute a "change-in-control" of Pinnacle for purposes of any benefit plans, agreements and arrangements of Pinnacle. Nothing herein shall limit the ability of Carolina Alliance to amend or terminate any of the Pinnacle Benefit Plans or Carolina Alliance Benefit Plans in accordance with their terms at any time, subject to vested rights of employees and directors that may not be terminated pursuant to the terms of such Pinnacle Benefit Plans.

(f) Nothing in this Section 5.11, expressed or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Section 5.11. Without limiting the foregoing, no provision of this Section 5.11 will create any third party beneficiary rights in any current or former employee, director or consultant of PBSC Financial or its Subsidiaries in respect of continued employment (or resumed employment) or any other matter. Nothing in this Section 5.11 is intended (i) to amend any Pinnacle Benefit Plan or any Carolina Alliance Benefit Plan, (ii) interfere with Carolina Alliance's or the Surviving Entity's right from and after the Closing Date to amend or terminate any Pinnacle Benefit Plan that is not terminated prior to the Effective Time or Carolina Alliance Benefit Plan, (iii) interfere with Carolina Alliance's or the Surviving Entity's right from and after the Effective Time to terminate the employment or provision of services by any director, employee, independent contractor or consultant or (iv) interfere with Carolina Alliance's indemnification obligations set forth in Section 5.10.

Section 5.12 Notification of Certain Changes. Carolina Alliance and PBSC Financial shall promptly advise the other Party of any change or event having, or which could reasonably be expected to have, a Material Adverse Effect with respect to itself or any of their respective Subsidiaries or which it believes would, or which could reasonably be expected to, cause or constitute a material breach of any of its or its respective Subsidiaries' representations, warranties or covenants contained herein. From time to time prior to the Effective Time (and on the date prior to the Closing Date), Carolina Alliance and Pinnacle will supplement or amend its respective Disclosure Schedule delivered in connection with the execution of this Agreement to reflect any matter which, if existing, occurring or known at the date of this Agreement, would

have been required to be set forth or described in such Disclosure Schedule or which is necessary to correct any information in such Disclosure Schedule which has been rendered materially inaccurate thereby. No supplement or amendment to any Disclosure Schedule or provision of information relating to the subject matter of any Disclosure Schedule after the date of this Agreement shall have any effect for the purpose of determining satisfaction of the conditions set forth in Section 6.03(a) hereof, as the case may be, or compliance by Carolina Alliance or Pinnacle with the respective covenants and agreements of such Parties set forth herein.

Section 5.13 Current Information. During the period from the date of this Agreement to the Effective Time, Pinnacle will cause one or more of its designated representatives to confer on a regular and frequent basis with representatives of Carolina Alliance and to report the general status of the ongoing operations of PBSC Financial and its Subsidiaries, in each case as may be reasonably requested by Carolina Alliance. Without limiting the foregoing, PBSC Financial agrees to provide to the other a copy of each report filed by it or any of its Subsidiaries with a Governmental Authority within one Business Day following the filing thereof to the extent that such report is not confidential under Law.

Section 5.14 Board Packages. Pinnacle shall distribute a copy of any Pinnacle board package, including the agenda and any draft minutes, to Carolina Alliance at the same time and in the same manner in which it distributes a copy of such package to the board of directors of PBSC Financial or the board of directors of Pinnacle Bank; *provided*, *however*, that Pinnacle shall not be required to copy Carolina Alliance on any documents that disclose confidential discussions of this Agreement or the transactions contemplated hereby or any other matter that PBSC Financial's board of directors or Pinnacle Bank's has been advised by counsel that such distribution to Carolina Alliance may violate a confidentiality obligation or fiduciary duty or any Law or regulation, or may result in a waiver of Pinnacle's attorney-client privilege.

Section 5.15 Transition; Informational Systems Conversion. From and after the date hereof, Carolina Alliance and Pinnacle shall each use its commercially reasonable efforts to plan the integration of Pinnacle with the business of Carolina Alliance following consummation of the transactions contemplated hereby, and shall meet on a regular basis to discuss and plan for the conversion of the data processing and related electronic informational systems of PBSC Financial and each of its Subsidiaries (the "Informational Systems Conversion") to those used by Carolina Alliance, which planning shall include, but not be limited to, (a) discussion of third-party service provider arrangements of PBSC Financial and each of its Subsidiaries; (b) non-renewal or changeover, after the Effective Time, of personal property leases and software licenses used by PBSC Financial and each of its Subsidiaries in connection with the systems operations; (c) retention of outside consultants and additional employees to assist with the conversion; and (d) outsourcing, as appropriate after the Effective Time, of proprietary or self-provided system services.

Section 5.16 Certain Litigation. In the event that any shareholder litigation related to this Agreement or the Merger and the other transactions contemplated by this Agreement is brought, or, to Pinnacle's Knowledge, threatened, against PBSC Financial, Pinnacle Bank and/or the members of the respective board of directors of PBSC Financial and Pinnacle prior to the Effective Time, Pinnacle shall give Carolina Alliance the opportunity to participate in the defense or settlement of such litigation, and no such settlement shall be agreed to without

Carolina Alliance's prior written consent (not to be unreasonably withheld). Pinnacle shall promptly notify Carolina Alliance of any such shareholder litigation brought, or threatened, against PBSC Financial, Pinnacle Bank and/or members of the respective board of directors of PBSC Financial and Pinnacle Bank within one Business Day after Pinnacle receives notice of any such claim or threat, and shall keep Carolina Alliance reasonably informed with respect to the status thereof.

Section 5.17 Coordination.

(a) Prior to the Effective Time, Pinnacle shall take any actions Carolina Alliance may reasonably request from time to time to better prepare the Parties for integration of the operations of Pinnacle with Carolina Alliance. Without limiting the foregoing, senior officers of Pinnacle and Carolina Alliance shall meet from time to time as Carolina Alliance may reasonably request, and in any event not less frequently than monthly, to review the financial and operational affairs of Pinnacle, and Pinnacle shall give due consideration to Carolina Alliance's input on such matters, with the understanding that, notwithstanding any other provision contained in this Agreement, Carolina Alliance shall not, under any circumstance, be permitted to exercise control of PBSC Financial or any of its Subsidiaries prior to the Effective Time. Pinnacle shall permit representatives of Carolina Alliance to be onsite at Pinnacle to facilitate integration of operations and assist with any other coordination efforts as necessary.

(b) No accrual or reserve or change in policy or procedure made by PBSC Financial or any of its Subsidiaries pursuant to this Section 5.17 shall constitute or be deemed to be a breach, violation of or failure to satisfy any representation, warranty, covenant, agreement, condition or other provision of this Agreement or otherwise be considered in determining whether any such breach, violation or failure to satisfy shall have occurred. The recording of any such adjustment shall not be deemed to imply any misstatement of previously furnished financial statements or information and shall not be construed as concurrence of Pinnacle or its management with any such adjustments.

(c) Concurrently with the execution of this Agreement, Pinnacle shall have caused the Support Agreements and the Employment Agreements to be executed and delivered by the individuals identified on Pinnacle Disclosure Schedule Section 5.17.

(d) Concurrently with the execution of this Agreement, Carolina Alliance shall have caused the Waiver Agreements in the form attached hereto as Exhibit D to be executed and delivered at the Closing by the individuals identified on CAB Disclosure Schedule Section 5.17.

Section 5.18 Confidentiality. In addition to the Parties' respective obligations under the Confidentiality Agreement previously entered into between the Parties or their duly authorized representatives, which obligations are hereby reaffirmed and adopted, and incorporated by reference herein, each Party hereto shall, and shall cause its directors, Executive Officers, advisers and agents to, maintain the confidentiality of all confidential information, whether written or oral, furnished to it by the other Party concerning its and its Subsidiaries' businesses, operations, and financial positions and shall not use such information for any purpose except in furtherance of the transactions contemplated by this Agreement. For purposes of this Section 5.19, the term "confidential information" shall not include any information that (i) at the time of

disclosure or thereafter is generally available to and known to the public, other than by a breach of this Agreement by the disclosing Party, (ii) was available to the disclosing Party on a non-confidential basis from a source other than the non-disclosing Party or (iii) was independently acquired or developed without violating any obligations of this Agreement.

Section 5.19 Carolina Alliance Common Stock Issuance. Carolina Alliance shall take or cause to be taken all actions necessary to cause the Carolina Alliance Common Stock to be issued as Stock Consideration to be available for issuance as soon as reasonably practicable following the Effective Time and for trading on the OTCQB as soon as reasonably practicable after issuance.

ARTICLE VI

CONDITIONS TO CONSUMMATION OF THE MERGER

Section 6.01 Conditions to Obligations of the Parties to Effect the Merger. The respective obligations of Carolina Alliance, PBSC Financial and Pinnacle Bank to consummate the Merger are subject to the fulfillment or, to the extent permitted by applicable Law, written waiver by the Parties hereto prior to the Closing Date of each of the following conditions:

(a) Shareholder Vote. This Agreement and the transactions contemplated hereby shall have received the Requisite Carolina Alliance Shareholder Approval and the Requisite PBSC Financial Shareholder Approval at the Carolina Alliance Meeting and Pinnacle Meeting, respectively, and shall have received the Requisite Pinnacle Bank Shareholder Approval.

(b) Regulatory Approvals; No Burdensome Condition. All Regulatory Approvals required to consummate the Merger in the manner contemplated herein shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof, if any, shall have expired or been terminated. None of such Regulatory Approvals shall impose any term, condition or restriction upon the Surviving Entity or any of its Subsidiaries that Carolina Alliance or Pinnacle, after consultation with the other Party, reasonably determines is a Burdensome Condition.

(c) No Injunctions or Restraints; Illegality; Lawsuits. No judgment, order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of any of the transactions contemplated hereby shall be in effect. No statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Authority that prohibits or makes illegal the consummation of any of the transactions contemplated hereby. There are no lawsuits, demand letters, demands for indemnification, claims, notices of violation, arbitrations, investigations, orders to show cause, notices of non-compliance or other proceedings of any nature pending or, to either Parties' Knowledge, threatened, against either Carolina Alliance or PBSC Financial or any of their Subsidiaries relating to the consummation of the Merger or the performance of this Agreement.

(d) Tax Opinions Relating to the Merger. Carolina Alliance and Pinnacle shall have received opinions from Nelson Mullins Riley & Scarborough, LLP and Bryan Cave, LLP, respectively, or such other counsel as the Parties mutually select, dated as of the Closing Date, in substance and form reasonably satisfactory to Carolina Alliance and Pinnacle to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion, the Merger will be treated for federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code. In rendering their opinions, Nelson Mullins Riley & Scarborough, LLP and Bryan Cave LLP may require and rely upon representations contained in certificates of officers of each of Carolina Alliance and Pinnacle, respectively.

(e) Dissenters' Rights. The holders of no more than 10% of the aggregate outstanding shares of Carolina Alliance Common Stock and PBSC Financial Common Stock shall have properly notified Carolina Alliance and PBSC Financial under Sections 33-13-101 *et seq*. of the SCBCA that they intend to exercise their dissenters' and appraisal rights.

Section 6.02 Conditions to Obligations of Pinnacle. The obligations of PBSC Financial and Pinnacle Bank to consummate the Merger also are subject to the fulfillment or written waiver by PBSC Financial and Pinnacle Bank prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of Carolina Alliance set forth in this Agreement shall be true and correct in all material respects at and as of the Closing Date, except where the failure of such representations and warranties of Carolina Alliance to be so true and correct, individually or in the aggregate, has not had and does not have a Material Adverse Effect on Carolina Alliance. Pinnacle shall have received a certificate dated as of the Closing Date, signed on behalf of Carolina Alliance by its Chief Executive Officer and Chief Financial Officer to such effect.

(b) Performance of Obligations of Carolina Alliance. Carolina Alliance shall have performed and complied with all of its obligations under this Agreement in all material respects at or prior to the Closing Date except where the failure of the performance of, or compliance with, such obligation has not had and does not have a Material Adverse Effect on Carolina Alliance, and Pinnacle shall have received a certificate, dated the Closing Date, signed on behalf of Carolina Alliance by its Chief Executive Officer and the Chief Financial Officer to such effect.

(c) Other Actions. Carolina Alliance shall have furnished Pinnacle with such certificates of its officers and such other documents to evidence fulfillment of the conditions set forth in Section 6.01 and Section 6.02 as Pinnacle may reasonably request.

(d) No Material Adverse Effect. Since the date of this Agreement (i) no change or event has occurred which has resulted in Carolina Alliance and its Subsidiaries being subject to a Material Adverse Effect and (ii) no condition, event, fact, circumstance or other occurrence has occurred that may reasonably be expected to have or result in such Parties being subject to a Material Adverse Effect.

(e) Agreements with Certain Individuals. The Waiver Agreements shall have been executed and delivered at the Closing by Carolina Alliance Bank and the individuals identified on CAB Disclosure Schedule Section 5.17.

(f) Commitment Agreements with Current PBSC Financial Directors. Carolina Alliance shall have executed and delivered to the three current PBSC Financial directors appointed to the Surviving Entity's board of directors a commitment agreement, in a form to be mutually agreed upon by Carolina Alliance and PBSC Financial, relating to such individuals' future nomination to the board of directors of the Surviving Entity as described in Section 1.03 of this Agreement.

Section 6.03 Conditions to Obligations of Carolina Alliance. The obligations of Carolina Alliance to consummate the Merger also are subject to the fulfillment or written waiver by Carolina Alliance prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of PBSC Financial and its Subsidiaries set forth in this Agreement shall be true and correct in all material respects at and as of the Closing Date, except where the failure of such representations and warranties of Pinnacle to be so true and correct, individually or in the aggregate, has not had and does not have a Material Adverse Effect on Pinnacle. Carolina Alliance shall have received a certificate dated as of the Closing Date, signed on behalf of Pinnacle by Pinnacle's Chief Executive Officer and Chief Financial Officer to such effect.

(b) Performance of Obligations of Pinnacle. Pinnacle shall have performed and complied with all of its obligations under this Agreement in all material respects at or prior to the Closing Date except where the failure of the performance of, or compliance with, such obligation has not had and does not have a Material Adverse Effect on Pinnacle, and Carolina Alliance shall have received a certificate, dated the Closing Date, signed on behalf of Pinnacle by Pinnacle's Chief Executive Officer and Chief Financial Officer to such effect.

(c) No Material Adverse Effect. Since the date of this Agreement (i) no change or event has occurred which has resulted in either PBSC Financial or any of its Subsidiaries being subject to a Material Adverse Effect and (ii) no condition, event, fact, circumstance or other occurrence has occurred that may reasonably be expected to have or result in such Parties being subject to a Material Adverse Effect.

(d) Agreements with Certain Individuals. The Support Agreements and the Employment Agreements shall have been executed and delivered at the Closing by Pinnacle and the individuals identified in Pinnacle Disclosure Schedule Section 5.17.

(e) Net Worth. The shareholders' equity of Pinnacle, excluding (i) unrealized gains or losses net of income taxes on available for sale securities included in accumulated other comprehensive income, (ii) one-time merger-related charges with respect to: (a) contract termination fees, (b) reasonable costs for attorney and investment banking fees, (c) data conversion fees, or (d) any other charges associated with the Merger that were approved by Carolina Alliance, and (iii) distributions declared to holders of PBSC Financial Common Stock to the extent permitted by this Agreement, calculated in accordance with GAAP as of the close

of business on the last day of the month preceding the Effective Time shall be equal to or greater than $19.8 million.

ARTICLE VII

TERMINATION

Section 7.01 Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned:

(a) Mutual Consent. At any time prior to the Effective Time, by the unanimous consent of Carolina Alliance, PBSC Financial and Pinnacle Bank if the board of directors of Carolina Alliance and the respective boards of directors of PBSC Financial and Pinnacle Bank each so determines by vote of a majority of the members of its entire board.

(b) No Regulatory Approval. By Carolina Alliance or Pinnacle, if either of their respective boards of directors so determines by a vote of a majority of the members of its entire board, in the event any Regulatory Approval required for consummation of the transactions contemplated by this Agreement shall have been denied by final, non-appealable action by such Governmental Authority or an application therefor shall have been permanently withdrawn at the request of a Governmental Authority.

(c) No Shareholder Approval. (i) By either Carolina Alliance or Pinnacle (*provided* in the case of Pinnacle that it shall not be in material breach of any of its obligations under Section 5.04(a)), if the Requisite PBSC Financial Shareholder Approval shall not have been obtained by reason of the failure to obtain the required vote at a duly held meeting of such shareholders or at any adjournment or postponement thereof, and (ii) by either Pinnacle or Carolina Alliance (*provided* in the case of Carolina Alliance that it shall not be in material breach of any of its obligations under Section 5.04(b)), if the Requisite Carolina Alliance Shareholder Approval shall not have been obtained by reason of the failure to obtain the required vote at a duly held meeting of such shareholders or at any adjournment or postponement thereof.

(d) Breach of Representations and Warranties. By either Carolina Alliance or Pinnacle (*provided* that the terminating Party is not then in material breach of any representation, warranty, covenant or other agreement contained herein in a manner that would entitle the other Party to not consummate this Agreement) if there shall have been a material breach by the other Party and such breach is reasonably likely, in the opinion of the non-breaching Party, to have, individually or in the aggregate, a Material Adverse Effect on either the breaching Party or the non-breaching Party, and which breach is not cured prior to the earlier of (y) 30 days following written notice to the Party committing such breach from the other Party hereto or (z) two Business Days prior to the Termination Date, or which breach, by its nature, cannot be cured prior to the Closing.

(e) Breach of Covenants. By either Carolina Alliance or Pinnacle (*provided* that the terminating Party is not then in material breach of any representation, warranty, covenant or other agreement contained herein in a manner that would entitle the other Party not to

consummate the agreement) if there shall have been a material breach of any of the covenants or agreements set forth in this Agreement on the part of the other Party, which breach is reasonably likely, in the opinion of the non-breaching Party, to have, individually or in the aggregate, a Material Adverse Effect on the breaching Party or the non-breaching Party, and which breach shall not have been cured prior to the earlier of (i) 30 days following written notice to the Party committing such breach from the other Party hereto or (ii) two Business Days prior to the Termination Date, or which breach, by its nature, cannot be cured prior to the Closing.

(f) Delay. It being understood that the Parties shall use good faith efforts to submit regulatory filings in a timely manner, by either Carolina Alliance or Pinnacle if the Merger shall not have been consummated on or before December 31, 2015 (the "Termination Date"), unless the failure of the Closing to occur by such date shall be due to a material breach of this Agreement by the Party seeking to terminate this Agreement.

(g) Failure to Recommend; Etc. In addition to and not in limitation of Carolina Alliance's termination rights under Section 7.01(e), at any time prior to the Pinnacle Meeting, by Carolina Alliance if (i) PBSC Financial shall have materially breached its obligations under Section 5.09, (ii) the board of directors of PBSC Financial shall have failed to make its recommendation in favor of the Merger referred to in Section 5.04 or shall have made a Change in PBSC Financial Recommendation, (iii) the board of directors of PBSC Financial shall have recommended, proposed, or publicly announced its intention to recommend or propose, to engage in an Acquisition Transaction with any Person other than Carolina Alliance or a Subsidiary or Affiliate of Carolina Alliance, or (iv) PBSC Financial shall have materially breached its obligations under Section 5.04 by failing to call, give notice of, convene and hold the Pinnacle Meeting in accordance with Section 5.04.

(h) Lawsuits, Etc. By either Carolina Alliance or Pinnacle if there shall have been a civil, criminal, administrative or regulatory action, suit, demand letter, demand for indemnification, claim, hearing, notice of violation, arbitration, investigation, order to show cause, market conduct examination, notice of non-compliance or other proceeding of any nature pending or, to either Parties' Knowledge, threatened against the other Party or any of its Subsidiaries relating to the consummation of the Merger or the performance of this Agreement (a "Legal Action").

(i) Material Change in Final Carolina Alliance Stock Price.

(i) By Pinnacle, at any time during the three business day period commencing on the Determination Date, if the Final Carolina Alliance Stock Price is greater than $15.00; *provided, however*, that if Pinnacle refuses to consummate the Merger pursuant to this Section 7.01(i), it shall give prompt written notice to Carolina Alliance; and *provided, further*, that such notice of election to terminate may be withdrawn at any time within the aforementioned three business day period.

(ii) By either Carolina Alliance or Pinnacle if at any time during the three business day period commencing on the Determination Date, if the Final Carolina Alliance Stock Price is less than $8.00; *provided, however*, that if either Carolina Alliance or Pinnacle refuses to

consummate the Merger pursuant to this Section 7.0(i), it shall give prompt written notice to the other Party to this Agreement; and *provided, further*, that such notice of election to terminate may be withdrawn at any time within the aforementioned three business day period.

Section 7.02 Termination Fee; Liquidated Damages.

(a) In recognition of the efforts, expenses and other opportunities foregone by Carolina Alliance while structuring and pursuing the Merger, Pinnacle shall pay to Carolina Alliance by wire transfer of immediately available funds a termination fee equal to $1,000,000 (the "Termination Fee"), in the event Carolina Alliance validly terminates this Agreement pursuant to Section 7.01(g), in which case Pinnacle shall pay the Termination Fee within two Business Days after receipt of Carolina Alliance's notification of such termination.

(b) The Parties hereto agree and acknowledge that if either Party terminates this Agreement pursuant to Section 7.01(d) or Section 7.01(e) by reason of the other Party's material breach of the provisions of this Agreement contemplated by Section 7.01(d) or Section 7.01(e) that is not timely cured as provided in such sections or capable of being cured prior to the Closing, the actual damages sustained by the Party terminating the agreement, including the expenses incurred preparatory to entering into this Agreement and in connection with the performance of the obligations under this Agreement, would be significant and difficult to ascertain, gauged by the circumstances existing at the time this Agreement is executed, and that in lieu of the Party terminating the agreement being required to pursue its damage claims in costly litigation proceedings in such event, the Parties agree that the Party in breach of Section 7.01(d) or Section 7.01(e) shall pay a reasonable estimate of the amount of such damages, which the Parties agree is the sum of $300,000 (the "Liquidated Damages Payment"), as liquidated damages to the non-breaching Party, which payment is not intended as a penalty, within two Business Days after notification of such termination. Notwithstanding the forgoing, this Section 7.02(b) shall not apply to any termination that results from an intentional breach by any Party or to fraud committed by any Party.

(c) Pinnacle and Carolina Alliance each agree that the agreements contained in this Section 7.02 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Carolina Alliance would not enter into this Agreement; accordingly, if Pinnacle fails promptly to pay any amounts due under this Section 7.02 and, in order to obtain such payment, Carolina Alliance commences a suit that results in a judgment against Pinnacle for such amounts, Pinnacle shall pay interest on such amounts from the date payment of such amounts were due to the date of actual payment at the rate of interest equal to the sum of (i) the rate of interest published from time to time in The Wall Street Journal, Eastern Edition (or any successor publication thereto), designated therein as the prime rate on the date such payment was due, plus (ii) 100 basis points, together with the costs and expenses of Carolina Alliance (including reasonable legal fees and expenses) in connection with such suit.

(d) Notwithstanding anything to the contrary set forth in this Agreement, the Parties agree that if this Agreement is terminated by Carolina Alliance pursuant to Section 7.01(d), Section 7.01(e) or Section 7.01(g), and if Pinnacle pays or causes to be paid to Carolina Alliance the Termination Fee in accordance with Section 7.02(a) or, if applicable, the Liquidated Damages Payment in accordance with Section 7.02(b), Pinnacle (or any successor in interest of

Pinnacle) will not have any further obligations or liabilities to Carolina Alliance with respect to this Agreement or the transactions contemplated by this Agreement.

Section 7.03 Effect of Termination. Except as set forth in Section 7.02(d), termination of this Agreement will not relieve a breaching Party from liability for any breach of any covenant, agreement, representation or warranty of this Agreement giving rise to such termination.

ARTICLE VIII

DEFINITIONS

Section 8.01 Definitions. The following terms are used in this Agreement with the meanings set forth below:

"Acquisition Proposal" has the meaning set forth in Section 5.09(a).

"Acquisition Transaction" means any of the following (other than the transactions contemplated hereby) involving Pinnacle: (a) any merger, consolidation, share exchange, business combination or other similar transaction; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets that constitute a substantial portion of the assets of Pinnacle in a single transaction or series of transactions; or (c) any tender offer or exchange offer for 20% or more of the outstanding shares of its capital stock or the filing of a registration statement under the Securities Act, in connection therewith.

"Affiliate" means, with respect to any Person, any other Person controlling, controlled by or under common control with such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") means the possession, directly or indirectly, of power to direct or cause the direction of the management and policies of a Person whether through the ownership of voting securities, by contract or otherwise.

"Aggregate Cash Limit" has the meaning set forth in Section 2.02(d).

"Aggregate Stock Limit" has the meaning set forth in Section 2.02(d).

"Agreement" has the meaning set forth in the preamble to this Agreement.

"Articles of Merger" has the meaning set forth in Section 1.05(a).

"ASC 320" means GAAP Accounting Standards Codification Topic 320.

"ASTM" has the meaning set forth in Section 5.01(w).

"Bank Secrecy Act" means the Bank Secrecy Act of 1970.

"BCA" has the meaning set forth in Section 1.01.

"BOLI" has the meaning set forth in Section 3.33(b).

"Burdensome Conditions" has the meaning set forth in Section 5.06(a).

"Business Day" means Monday through Friday of each week, except a legal holiday recognized as such by the U.S. government or any day on which banking institutions in the State of South Carolina are authorized or obligated to close.

"CAB Disclosure Schedule" has the meaning set forth in Section 3.01(a).

"Carolina Alliance" has the meaning set forth in the preamble to this Agreement.

"Carolina Alliance 401(a) Plan" has the meaning set forth in Section 4.16(c).

"Carolina Alliance Audited Financial Statements" has the meaning set forth in Section 4.09(a).

"Carolina Alliance Balance Sheet Date" has the meaning set forth in Section 4.09(c).

"Carolina Alliance Benefit Plans" has the meaning set forth in Section 4.16(a).

"Carolina Alliance Common Stock" means the common stock, $1.00 par value per share, of Carolina Alliance.

"Carolina Alliance Employees" has the meaning set forth in Section 4.16(a).

"Carolina Alliance Financial Statements" has the meaning set forth in Section 4.09(a).

"Carolina Alliance Insurance Policies" has the meaning set forth in Section 4.33(a).

"Carolina Alliance Intellectual Property" means the Intellectual Property used in or held for use in the conduct of the business of Carolina Alliance and its Subsidiaries.

"Carolina Alliance Leases" has the meaning set forth in Section 4.31(b).

"Carolina Alliance Loan" has the meaning set forth in Section 4.23(b).

"Carolina Alliance Loan Property" means any real property securing loans held by Carolina Alliance.

"Carolina Alliance Material Contracts" has the meaning set forth in Section 4.13(a).

"Carolina Alliance Meeting" has the meaning set forth in Section 5.04(b).

"Carolina Alliance Preferred Stock" means the preferred stock, $1.00 par value per share, of Carolina Alliance.

"Carolina Alliance Regulatory Agreement" has the meaning set forth in Section 4.14.

"Carolina Alliance Unaudited Financial Statements" has the meaning set forth in Section 4.09(a).

"Cash Consideration" has the meaning set forth in Section 2.01(a).

"Cash Election Number" has the meaning set forth in Section 2.02(b).

"Certificate" means any certificate which immediately prior to the Effective Time represents shares of PBSC Financial Common Stock.

"Change in PBSC Financial Recommendation" has the meaning set forth in 5.09(e).

"Claim" has the meaning set forth in Section 5.10(a).

"Closing" and "Closing Date" have the meanings set forth in Section 1.05(b).

"Code" has the meaning set forth in the recitals.

"Community Reinvestment Act" means the Community Reinvestment Act of 1977.

"Confidentiality Agreement" shall mean that certain letter agreement dated as of December 18, 2014, by and between PBSC Financial and Carolina Alliance (as it may be amended from time to time).

"D&O Insurance" has the meaning set forth in Section 5.10(c).

"Derivative Transaction" means any swap transaction, option, warrant, forward purchase or sale transaction, futures transaction, cap transaction, floor transaction or collar transaction relating to one or more currencies, commodities, bonds, equity securities, loans, interest rates, catastrophe events, weather-related events, credit-related events or conditions or any indexes, or any other similar transaction (including any option with respect to any of these transactions) or combination of any of these transactions, including collateralized mortgage obligations or other similar instruments or any debt or equity instruments evidencing or embedding any such types of transactions, and any related credit support, collateral or other similar arrangements related to any such transaction or transactions.

"Determination Date" means the fifth business day immediately prior to the date on which the Effective Time is to occur.

"Dissenter Shares" has the meaning set forth in Section 2.01(a)(ii).

"Dodd-Frank Act" means the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"Effective Time" has the meaning set forth in Section 1.05(a).

"Election Deadline" has the meaning set forth in Section 2.02(c).

"Election Form" has the meaning set forth in Section 2.02(a).

"Employment Agreements" means those certain employment agreements to be entered into at the Closing between Carolina Alliance and each of David Barnett, David Weaver and Jim Stewart, in substantially the form attached as Exhibit A to this Agreement.

"Environmental Claim" means any written complaint, summons, action, citation, notice of violation, directive, order, claim, litigation, investigation, judicial or administrative proceeding or action, judgment, lien, demand, letter or communication alleging non-compliance with any Environmental Law relating to any actual or threatened release of a Hazardous Substance.

"Environmental Law" means any federal, state or local Law, regulation, order, decree, permit, authorization, opinion or agency requirement relating to: (a) pollution, the protection or restoration of the indoor or outdoor environment, human health and safety, or natural resources, (b) the handling, use, presence, disposal, release or threatened release of any Hazardous Substance, or (c) any injury or threat of injury to persons or property in connection with any Hazardous Substance. The term Environmental Law includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: (a) Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act of 1986, as amended ("CERCLA"), 42 U.S.C. § 9601 et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. § 6901, et seq.; the Clean Air Act, as amended, 42 U.S.C. § 7401, et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. § 1251, et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. § 2601, et seq.; the Emergency Planning and Community Right to Know Act, 42 U.S.C. § 1101, et seq.; the Safe Drinking Water Act; 42 U.S.C. § 300f, et seq.; the Occupational Safety and Health Act, 29 U.S.C. § 651, et seq.; (b) common law that may impose liability (including without limitation strict liability) or obligations for injuries or damages due to the presence of or exposure to any Hazardous Substance.

"Equal Credit Opportunity Act" means the Equal Credit Opportunity Act, as amended.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" has the meaning set forth in Section 3.16(d).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Agent" has the meaning set forth in Section 2.02(a).

"Exchange Fund" has the meaning set forth in Section 2.03(a).

"Exchange Ratio" has the meaning set forth in Section 2.01(a).

"Excluded Shares" has the meaning set forth in Section 2.01(d).

"Executive Officer" means the Chief Executive Officer, President, Chief Financial Officer, and each other officer with significant policy-making authority of Pinnacle, Carolina Alliance or the Surviving Entity, as applicable.

"Fair Credit Reporting Act" means the Fair Credit Reporting Act.

"Fair Housing Act" means the Fair Housing Act.

"FDIA" has the meaning set forth in Section 3.28.

"FDIC" means the Federal Deposit Insurance Corporation.

"Federal Reserve" means the Federal Reserve Bank of Richmond.

"FFIEC" means the Federal Financial Institutions Examination Council.

"Final Carolina Alliance Stock Price" means the volume weighted average price (rounded to the nearest cent) of Carolina Alliance Common Stock on OTCQB (as reported by OTC Markets Group Inc. (www.otcmarkets.com) or, if not reported therein, in another authoritative source mutually selected by Carolina Alliance and Pinnacle) during the Measurement Period.

"FINRA" means the Financial Industry Regulatory Authority.

"FRB" means the Board of Governors of the Federal Reserve System.

"GAAP" means generally accepted accounting principles in the United States of America, applied consistently with past practice, including with respect to quantity and frequency.

"Governmental Authority" means any federal, state or local court, administrative agency or commission or other governmental authority or instrumentality.

"Hazardous Substance" means any and all substances (whether solid, liquid or gas) defined, listed, or otherwise regulated as pollutants, hazardous wastes, hazardous substances, hazardous materials, extremely hazardous wastes, flammable or explosive materials, radioactive materials or words of similar meaning or regulatory effect under any present or future Environmental Law or that may have a negative impact on human health or the environment, including but not limited to petroleum and petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead, radon, radioactive materials, flammables and explosives, mold, mycotoxins, microbial matter and airborne pathogens (naturally occurring or otherwise). Hazardous Substance does not include substances of kinds and in amounts ordinarily and customarily used or stored for the purposes of cleaning or other maintenance or operations and which are used or stored in compliance with all applicable Environmental Law.

"Holder Representative" has the meaning set forth in Section 2.02(b).

"Home Mortgage Disclosure Act" means Home Mortgage Disclosure Act of 1975.

"Indemnified Parties" has the meaning set forth in Section 5.10(a).

"Informational Systems Conversion" has the meaning set forth in Section 5.15.

"Intellectual Property" means (a) trademarks, service marks, trade names, Internet domain names, designs, logos, slogans, and general intangibles of like nature, together with all goodwill, registrations and applications related to the foregoing; (b) patents and industrial designs (including any continuations, divisionals, continuations-in-part, renewals, reissues, and applications for any of the foregoing); (c) copyrights (including any registrations and applications for any of the foregoing); (d) Software; and (e) technology, trade secrets and other confidential information, know-how, proprietary processes, formulae, algorithms, models, and methodologies.

"IRS" means the Internal Revenue Service.

"Joint Proxy Statement/Offering Circular" means the proxy statement and other proxy solicitation materials constituting a part thereof, together with any amendments and supplements thereto, to be delivered to holders of PBSC Financial Common Stock and Carolina Alliance Common Stock in connection with the solicitation of their approval of this Agreement.

"Knowledge" of any Person (including references to such Person being aware of a particular matter), as used with respect to PBSC Financial and its Subsidiaries, means those facts, reports, allegations or other information that are actually known, after reasonable inquiry, by any Executive Officer of Pinnacle, including for this purpose and without limitation, the Chairman of the Board of PBSC Financial and Pinnacle Bank.

Knowledge, as used with respect to Carolina Alliance and its Subsidiaries, means those facts, reports, allegations or other information that are actually known, after reasonable inquiry, by any Executive Officer of Carolina Alliance, including for this purpose and without limitation, the Chairman of the Board of Carolina Alliance. Without limiting the scope of the preceding sentences, the term "Knowledge" includes any fact, matter or circumstance set forth in any written notice received by PBSC Financial, by Pinnacle Bank or by Carolina Alliance from any Governmental Authority.

"Law" shall mean any federal, state, local or foreign or provincial law, statute, ordinance, rule, regulation, order, policy, guideline or agency requirement of or undertaking to or agreement with any Governmental Entity, including common law.

"Legal Action" has the meaning set forth in Section 7.01(h).

"Liens" means any charge, mortgage, pledge, security interest, restriction, claim, lien or encumbrance, conditional and installment sale agreement, charge or other claim of third parties of any kind.

"Liquidated Damages Payment" has the meaning set forth in Section 7.02(b).

"Material Adverse Effect" means with respect to any Person, any change or effect that is material and adverse to the financial condition (financial or other), results of operations, business or business prospects of such Person and its Subsidiaries, taken as a whole, or which would materially impair the ability of such Person to perform its obligations under this Agreement or otherwise materially impairs the ability of such Person to consummate the transactions contemplated hereby, including, without limitation, a Legal Action; *provided, however*, that Material Adverse Effect shall not be deemed to include the impact of (i) changes in banking and similar laws of general applicability or interpretations thereof by Governmental Authorities, (ii) changes in GAAP or regulatory accounting requirements applicable to banks or bank holding companies generally, (iii) any modifications or changes to Pinnacle valuation policies and practices in connection with the transactions contemplated hereby or restructuring charges taken in connection with the transactions contemplated hereby, in each case in accordance with GAAP and with Carolina Alliance's prior written consent, (iv) changes after the date of this Agreement in general economic or capital market conditions affecting financial institutions or their market prices generally and not disproportionately affecting Pinnacle or Carolina Alliance, including, but not limited to, changes in levels of interest rates generally, (v) the effects of compliance with this Agreement on the operating performance of Pinnacle or Carolina Alliance, including the expenses incurred by Pinnacle or Carolina Alliance in negotiating, documenting, effecting and consummating the transactions contemplated by this Agreement, (vi) the effects of any action or omission taken by Pinnacle with the prior consent of Carolina Alliance, and vice versa, or as otherwise expressly permitted or contemplated by this Agreement, (vii) the effects demonstrably shown to have been proximately caused by the public announcement of the Agreement and the transactions contemplated hereby, and the reaction or response of on relationships with customers or employees (including the loss

of personnel subsequent to the date of this Agreement), and (viii) the public disclosure of this Agreement or the transactions contemplated hereby.

"Maximum D&O Tail Premium" has the meaning set forth in Section 5.10(c).

"Measurement Period" means the 20 consecutive Trading Days ending on the Determination Date.

"Non-Election Shares" has the meaning set forth in Section 2.02(b).

"Merger" has the meaning set forth in the preamble to this Agreement.

"Merger Consideration" has the meaning set forth in Section 2.01(a).

"Mixed Consideration" has the meaning set forth in Section 2.01(a).

"Mixed Election" has the meaning set forth in Section 2.02(b).

"National Labor Relations Act" means the National Labor Relations Act.

"Non-Election" has the meaning set forth in Section 2.02(b).

"Notice of Recommendation Change" has the meaning set forth in Section 5.09(f).

"Option Cash Election Shares" means shares of PBSC Financial Common Stock acquired through the exercise of Rights to purchase PBSC Financial Common Stock after the date of this Agreement and for which the holder validly submits a Cash Election indicating that such shares are Option Cash Election Shares.

"Ordinary Course of Business" means the ordinary, usual and customary course of business consistent with past practice, including with respect to frequency and amount.

"OREO" has the meaning set forth in Section 3.23(a).

"OTCQB" means the OTCQB Venture Marketplace maintainted by OTC Markets Group, Inc. or any successor thereto.

"Party" means PBSC Financial, Pinnacle Bank or Carolina Alliance and "Parties" means two or more of such Persons.

"PBSC Financial" has the meaning set forth in the preamble to this Agreement.

"PBSC Financial Balance Sheet Date" has the meaning set forth in Section 3.09(c).

"PBSC Financial Common Stock" means the voting common stock, $1.00 par value per share, of PBSC Financial.

"PBSC Financial Financial Statements" has the meaning set forth in Section 3.09(a).

"PBSC Financial Merger" has the meaning set forth in the preamble to this Agreement.

"Per Share Purchase Price" has the meaning set forth in Section 2.01(a).

"Person" means any individual, bank, corporation, partnership, association, joint-stock company, business trust, limited liability company, unincorporated organization or other organization or firm of any kind or nature.

"Phase I" has the meaning set forth in Section 5.01(w).

"Pinnacle 401(a) Plan" has the meaning set forth in Section 3.16(c).

"Pinnacle Bank" has the meaning set forth in the preamble to this Agreement.

"Pinnacle Bank Common Stock" means the common stock, $5.00 par value per share, of Pinnacle Bank.

"Pinnacle Bank Merger" has the meaning set forth in the preamble to this Agreement.

"Pinnacle Benefit Plans" has the meaning set forth in Section 3.16(a).

"Pinnacle Employees" has the meaning set forth in Section 3.16(a).

"Pinnacle Insurance Policies" has the meaning set forth in Section 3.33(a).

"Pinnacle Intellectual Property" means the Intellectual Property used in or held for use in the conduct of the business of PBSC Financial and its Subsidiaries.

"Pinnacle Leases" has the meaning set forth in Section 3.31(b).

"Pinnacle Loan" has the meaning set forth in Section 3.23(b).

"Pinnacle Loan Property" means any real property securing loans held by Pinnacle.

"Pinnacle Material Contracts" has the meaning set forth in Section 3.13(a).

"Pinnacle Meeting" has the meaning set forth in Section 5.04(a).

"Pinnacle Regulatory Agreement" has the meaning set forth in Section 3.14.

"Pinnacle" has the meaning set forth in the preamble to this Agreement.

"Pinnacle Bank" has the meaning set forth in the preamble to this Agreement.

"Pinnacle Bank Merger" has the meaning set forth in the recitals.

"Pinnacle Disclosure Schedule" has the meaning set forth in Section 3.01(a).

"Regulatory Agency" shall mean the Federal Reserve Bank of Richmond, the FDIC or the South Carolina Board of Financial Institutions.

"Regulatory Approval" has the meaning set forth in Section 3.07(a).

"Representative" has the meaning set forth in Section 5.09(a).

"Requisite Carolina Alliance Shareholder Approval" has the meaning set forth in Section 4.06.

"Requisite PBSC Financial Shareholder Approval" has the meaning set forth in Section 3.06.

"Requisite Pinnacle Bank Shareholder Approval" has the meaning set forth in Section 3.06.

"Rights" means, with respect to any Person, warrants, options, rights, convertible securities and other arrangements or commitments which obligate the Person to issue or dispose of any of its capital stock or other ownership interests.

"Sarbanes-Oxley Act" means the Sarbanes-Oxley Act of 2002.

"SCBCA" has the meaning set forth in Section 1.01(a).

"SCBFI" has the meaning set forth in Section 1.05(a).

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Software" means computer programs, whether in source code or object code form (including any and all software implementation of algorithms, models and methodologies), databases and compilations (including any and all data and collections of data), and all documentation (including user manuals and training materials) related to the foregoing.

"Stock Consideration" has the meaning set forth in Section 2.01(a).

"Stock Election" has the meaning set forth in Section 2.02(b).

"Stock Election Number" has the meaning set forth in Section 2.02(b).

"Stock Election Shares" has the meaning set forth in Section 2.02(b).

"Subsidiary" means, with respect to any Party, any corporation or other entity of which a majority of the capital stock or other ownership interest having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Party. Any reference in this Agreement to a Subsidiary means, unless the context otherwise requires, any current or former Subsidiary.

"Superior Proposal" has the meaning set forth in Section 5.09(g).

"Support Agreement" or "Support Agreements" shall have the meaning set forth in the preamble to this Agreement and shall be entered into at the Closing between Carolina Alliance and the respective individuals identified on Pinnacle Disclosure Schedule Section 5.17 in substantially the form attached as Exhibit B to this Agreement.

"Surviving Entity" has the meaning set forth in the preamble to this Agreement.

"Tax" and "Taxes" mean any and all federal, state, local or foreign income, gross income, gains, gross receipts, sales, use, ad valorem, goods and services, capital, production, transfer, franchise, windfall profits, license, withholding, payroll, employment, disability, employer health, excise, estimated, severance, stamp, occupation, property, environmental, custom duties, unemployment or other taxes of any kind whatsoever, together with any interest, additions or penalties thereto and any interest in respect of such interest and penalties.

"Tax Returns" means any return, declaration or other report (including elections, declarations, schedules, estimates and information returns) required to be filed with a Governmental Authority with respect to any Taxes.

"Termination Date" has the meaning set forth in Section 7.01(f).

"Termination Fee" has the meaning set forth in Section 7.02(a).

"The date hereof" or "the date of this Agreement" shall mean the date first set forth above in the preamble to this Agreement.

"Trading Day" means any day on which shares of Carolina Alliance Common Stock are traded, as reported on the OTCQB.

"Treasury Regulations" means the final or temporary regulations promulgated by the United States Department of the Treasury under or pursuant to the Code.

"Truth in Lending Act" means the Truth in Lending Act of 1968.

"USA PATRIOT Act" means the USA PATRIOT Act of 2001, Public Law 107-56, and the regulations promulgated thereunder.

"Waiver Agreement" shall have the meaning set forth in the preamble to this Agreement and shall be entered into at the Closing between Carolina Alliance and the

respective individuals identified on CAB Disclosure Schedule Section 5.17, in substantially the form attached as Exhibit D to this Agreement.

ARTICLE IX

MISCELLANEOUS

Section 9.01 Survival. No representations, warranties, agreements and covenants contained in this Agreement shall survive the Effective Time other than this Section 9.01 (except for agreements or covenants contained herein that by their express terms are to be performed after the Effective Time).

Section 9.02 Waiver; Amendment. Prior to the Effective Time, any provision of this Agreement may be (a) waived by the Party benefited by the provision or (b) amended or modified at any time, by an agreement in writing between the Parties hereto executed in the same manner as this Agreement, except that after the Pinnacle Meeting no amendment shall be made which by Law requires further approval by the shareholders of Carolina Alliance or PBSC Financial without obtaining such approval.

Section 9.03 Governing Law; Waiver.

(a) This Agreement shall be governed by, and interpreted and enforced in accordance with, the internal, substantive laws of the State of South Carolina, without regard for conflict of law provisions.

(b) Each Party acknowledges and agrees that any controversy which may arise under this Agreement is likely to involve complicated and difficult issues, and therefore each such Party hereby irrevocably and unconditionally waives any right such Party may have to a trial by jury in respect of any litigation directly or indirectly arising out of or relating to this agreement, or the transactions contemplated by this Agreement. Each Party certifies and acknowledges that (i) no representative, agent or attorney of any other Party has represented, expressly or otherwise, that such other Party would not, in the event of litigation, seek to enforce the foregoing waiver, (ii) each Party understands and has considered the implications of this waiver, (iii) each Party makes this waiver voluntarily, and (iv) each Party has been induced to enter into this agreement by, among other things, the mutual waivers and certifications in this Section 9.03.

Section 9.04 Expenses. Except as otherwise provided in Section 7.02, each Party hereto will bear all expenses incurred by it in connection with this Agreement and the transactions contemplated hereby, including fees and expenses of its own financial consultants, accountants and counsel, *provided* that nothing contained herein shall limit either Party's rights to recover any liabilities or damages arising out of the other Party's willful breach of any provision of this Agreement.

Section 9.05 Notices. All notices, requests and other communications hereunder to a Party, shall be in writing and shall be deemed properly given if (a) personally delivered, (b) by registered or certified mail (return receipt requested), with adequate postage prepaid thereon, (c) by properly addressed electronic mail delivery (with confirmation of delivery receipt), or (d) sent

by reputable courier service to such Party at its address set forth below, or at such other address or addresses as such Party may specify from time to time by notice in like manner to the Parties hereto. All notices shall be deemed effective upon delivery.

If to Carolina Alliance:

Carolina Alliance Bank
200 South Church Street
Spartanburg, South Carolina 29306
Attention: John S. Poole

With a copy (which shall not constitute notice) to:

Nelson, Mullins, Riley & Scarborough LLP
Poinsett Plaza, 9th Floor
104 South Main Street
Greenville, South Carolina 29601
Attn: Benjamin A. Barnhill

If to Pinnacle:

PBSC Financial Corporation
Pinnacle Bank of South Carolina
937 North Pleasantburg Drive
Greenville, SC 29607
Attention: David G. Barnett

With a copy (which shall not constitute notice) to:

Bryan Cave LLP
One Atlantic Center, Fourteenth Floor
1201 W. Peachtree St., N.W.
Atlanta, Georgia 30309
Attn: Jonathan S. Hightower

Section 9.06 Entire Understanding; No Third Party Beneficiaries. This Agreement represents the entire understanding of the Parties hereto and thereto with reference to the transactions contemplated hereby, and this Agreement supersedes any and all other oral or written agreements heretofore made. Except for the Indemnified Parties' rights under Section 5.10, which are expressly intended to be for the irrevocable benefit of, and shall be enforceable by, each Indemnified Party and his or her heirs and representatives, Carolina Alliance, PBSC Financial and Pinnacle Bank hereby agree that their respective representations, warranties and covenants set forth herein are solely for the benefit of the other Party hereto, in accordance with and subject to the terms of this Agreement, and this Agreement is not intended to, and does not, confer upon any Person (including any person or Pinnacle Employees who might be affected by Section 5.11), other than the Parties hereto, any rights or remedies hereunder, including, the right

to rely upon the representations and warranties set forth herein. The representations and warranties in this Agreement are the product of negotiations among the Parties hereto and are for the sole benefit of the Parties hereto. Any inaccuracies in such representations and warranties are subject to waiver by the Parties hereto in accordance with Section 9.02 without notice or liability to any other Person. In some instances, the representations and warranties in this Agreement may represent an allocation among the Parties hereto of risks associated with particular matters regardless of the knowledge of any of the Parties hereto. Consequently, Persons other than the Parties hereto may not rely upon the representations and warranties in this Agreement as characterizations of actual facts or circumstances as of the date of this Agreement or as of any other date.

Section 9.07 Severability. In the event that any one or more provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable in any respect, by any court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement and the Parties shall use their reasonable efforts to substitute a valid, legal and enforceable provision which, insofar as practical, implements the purposes and intents of this Agreement.

Section 9.08 Enforcement of the Agreement. The Parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction without having to show or prove economic damages and without the requirement of posting a bond, this being in addition to any other remedy to which they are entitled at law or in equity.

Section 9.09 Interpretation.

(a) When a reference is made in this Agreement to sections, exhibits or schedules, such reference shall be to a section of, or exhibit or schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.”

(b) The Parties hereto have participated jointly in the negotiation and drafting of this Agreement and the other agreements and documents contemplated herein. In the event an ambiguity or question of intent or interpretation arises under any provision of this Agreement or any other agreement or document contemplated herein, this Agreement and such other agreements or documents shall be construed as if drafted jointly by the Parties thereto, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of authorizing any of the provisions of this Agreement or any other agreements or documents contemplated herein.

Section 9.10 Assignment. No Party may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of the other Party,

and any purported assignment in violation of this Section 9.10 shall be void. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

Section 9.11 Counterparts. This Agreement may be executed and delivered by facsimile or by electronic data file and in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party, it being understood that all Parties need not sign the same counterpart. Signatures delivered by facsimile or by electronic data file shall have the same effect as originals.

[*Signature Page Follows*]

IN WITNESS WHEREOF, Carolina Alliance, PBSC Financial and Pinnacle Bank have caused this Agreement to be executed in counterparts by their duly authorized officers, all as of the day and year first above written.

Carolina Alliance Bank

By: /s/ John S. Poole
Name: John S. Poole
Title: Chief Executive Officer

PBSC Financial Corporation

By: /s/ David G. Barnett
Name: David G. Barnett
Title: President and Chief Executive Officer

Pinnacle Bank of South Carolina

By: /s/ David G. Barnett
Name: David G. Barnett
Title: President and Chief Executive Officer

Appendix B

Chapter 13 of the South Carolina Business Corporation Act

Title 33 - Corporations, Partnerships and Associations

CHAPTER 13

Dissenters' Rights

ARTICLE 1

Right to Dissent and Obtain Payment for Shares

SECTION 33-13-101. Definitions.

In this chapter:

(1) "Corporation" means the issuer of the shares held by a dissenter before the corporate action, or the surviving or acquiring corporation by merger or share exchange of that issuer.

(2) "Dissenter" means a shareholder who is entitled to dissent from corporate action under Section 33-13-102 and who exercises that right when and in the manner required by Sections 33-13-200 through 33-13-280.

(3) "Fair value", with respect to a dissenter's shares, means the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable. The value of the shares is to be determined by techniques that are accepted generally in the financial community.

(4) "Interest" means interest from the effective date of the corporate action until the date of payment, at the average rate currently paid by the corporation on its principal bank loans or, if none, at a rate that is fair and equitable under all the circumstances.

(5) "Record shareholder" means the person in whose name shares are registered in the records of a corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with a corporation.

(6) "Beneficial shareholder" means the person who is a beneficial owner of shares held by a nominee as the record shareholder.

(7) "Shareholder" means the record shareholder or the beneficial shareholder.

HISTORY: 1988 Act No. 444, Section 2.

SECTION 33-13-102. Right to dissent.

(A) A shareholder is entitled to dissent from, and obtain payment of the fair value of, his shares in the event of any of the following corporate actions:

(1) consummation of a plan of merger to which the corporation is a party (i) if shareholder approval is required for the merger by Section 33-11-103 or the articles of incorporation and the shareholder is entitled to vote on the merger or (ii) if the corporation is a subsidiary that is merged with its parent under Section 33-11-104 or 33-11-108 or if the corporation is a parent that is merged with its subsidiary under Section 33-11-108;

(2) consummation of a plan of share exchange to which the corporation is a party as the corporation whose shares are to be acquired, if the shareholder is entitled to vote on the plan;

(3) consummation of a sale or exchange of all, or substantially all, of the property of the corporation other than in the usual and regular course of business, if the shareholder is entitled to vote on the sale or exchange, including a sale in dissolution, but not including a sale pursuant to court order or a sale for cash pursuant to a plan by which all

or substantially all of the net proceeds of the sale must be distributed to the shareholders within one year after the date of sale;

(4) an amendment of the articles of incorporation that materially and adversely affects rights in respect of a dissenter's shares because it:

(i) alters or abolishes a preferential right of the shares;

(ii) creates, alters, or abolishes a right in respect of redemption, including a provision respecting a sinking fund for the redemption or repurchase, of the shares;

(iii) alters or abolishes a preemptive right of the holder of the shares to acquire shares or other securities;

(iv) excludes or limits the right of the shares to vote on any matter, or to cumulate votes, other than a limitation by dilution through issuance of shares or other securities with similar voting rights; or

(v) reduces the number of shares owned by the shareholder to a fraction of a share if the fractional share so created is to be acquired for cash under Section 33-6-104; or

(5) any corporate action to the extent the articles of incorporation, bylaws, or a resolution of the board of directors provides that voting or nonvoting shareholders are entitled to dissent and obtain payment for their shares;

(6) the conversion of a corporation into a limited liability company pursuant to Section 33-11-111 or conversion of a corporation into either a general partnership or limited partnership pursuant to Section 33-11-113;

(7) the consummation of a plan of conversion to a limited liability company pursuant to Section 33-11-111 or to a partnership or limited partnership pursuant to Section 33-11-113.

(B) Notwithstanding subsection (A), no dissenters' rights under this section are available for shares of any class or series of shares which, at the record date fixed to determine shareholders entitled to receive notice of a vote at the meeting of shareholders to act upon the agreement of merger or exchange, were either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2], Section 33-15-10 [1962 Code Section 12-19.1; 1952 Code Sections 12-401 to 12-404; 1942 Code Sections 7676, 7736, 7741, 7744; 1932 Code Sections 7676, 7736, 7741, 7744; Civ. C. '22 Sections 4250, 4310, 4315, 4318; Civ. C. '12 Sections 2846, 2849, 2873; Civ. C. '02 Sections 1842, 1851, 1892; R. S. 1499; 1886 (19) 846; 1896 (22) 97; 1898 (22) 769, 771; 1901 (23) 710; 1917 (30) 36; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2], Section 33-17-50 [1962 Code Section 12-20.5; 1962 (52) 1996; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2], Section 33-17-90 [1962 Code Section 12-20.9; 1952 Code Sections 12-459 to 12-462; 1942 Code Section 7759; 1932 Code Section 7759; 1925 (34) 246; 1962 (52) 1996; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2], and Section 33-19-50 [1962 Code Section 12-21.5; 1952 Code Sections 12-633 to 12-635; 1942 Code Section 7706; 1932 Code Section 7706; 1926 (34) 1052; 1962 (52) 1996; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2; 1998 Act No. 328, Section 8; 2004, Act No. 221, Section 17.

SECTION 33-13-103. Dissent by nominees and beneficial owners.

(a) A record shareholder may assert dissenters' rights as to fewer than all the shares registered in his name only if he dissents with respect to all shares beneficially owned by any one person and notifies the corporation in writing of the name and address of each person on whose behalf he asserts dissenters' rights. The rights of a partial dissenter under this subsection are determined as if the shares to which he dissents and his other shares were registered in the names of different shareholders.

(b) A beneficial shareholder may assert dissenters' rights as to shares held on his behalf only if he dissents with respect to all shares of which he is the beneficial shareholder or over which he has power to direct the vote. A beneficial shareholder asserting dissenters' rights to shares held on his behalf shall notify the corporation in writing of the name and address of the record shareholder of the shares, if known to him.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

ARTICLE 2

Procedure for Exercise of Dissenters' Rights

SECTION 33-13-200. Notice of dissenters' rights.

(a) If proposed corporate action creating dissenters' rights under Section 33-13-102 is submitted to a vote at a shareholders' meeting, the meeting notice must state that shareholders are or may be entitled to assert dissenters' rights under this chapter and be accompanied by a copy of this chapter.

(b) If corporate action creating dissenters' rights under Section 33-13-102 is taken without a vote of shareholders, the corporation shall notify in writing all shareholders entitled to assert dissenters' rights that the action was taken and send them the dissenters' notice described in Section 33-13-220.

HISTORY: 1988 Act No. 444, Section 2.

SECTION 33-13-210. Notice of intent to demand payment.

(a) If proposed corporate action creating dissenters' rights under Section 33-13-102 is submitted to a vote at a shareholders' meeting, a shareholder who wishes to assert dissenters' rights (1) must give to the corporation before the vote is taken written notice of his intent to demand payment for his shares if the proposed action is effectuated and (2) must not vote his shares in favor of the proposed action. A vote in favor of the proposed action cast by the holder of a proxy solicited by the corporation shall not disqualify a shareholder from demanding payment for his shares under this chapter.

(b) A shareholder who does not satisfy the requirements of subsection (a) is not entitled to payment for his shares under this chapter.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

SECTION 33-13-220. Dissenters' notice.

(a) If proposed corporate action creating dissenters' rights under Section 33-13-102 is authorized at a shareholders' meeting, the corporation shall deliver a written dissenters' notice to all shareholders who satisfied the requirements of Section 33-13-210(a).

(b) The dissenters' notice must be delivered no later than ten days after the corporate action was taken and must:

(1) state where the payment demand must be sent and where certificates for certificated shares must be deposited;

(2) inform holders of uncertificated shares to what extent transfer of the shares is to be restricted after the payment demand is received;

(3) supply a form for demanding payment that includes the date of the first announcement to news media or to shareholders of the terms of the proposed corporate action and requires that the person asserting dissenters' rights certify whether or not he or, if he is a nominee asserting dissenters' rights on behalf of a beneficial shareholder, the beneficial shareholder acquired beneficial ownership of the shares before that date;

(4) set a date by which the corporation must receive the payment demand, which may not be fewer than thirty nor more than sixty days after the date the subsection (a) notice is delivered and set a date by which certificates for certificated shares must be deposited, which may not be earlier than twenty days after the demand date; and

(5) be accompanied by a copy of this chapter.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

SECTION 33-13-230. Shareholders' payment demand.

(a) A shareholder sent a dissenters' notice described in Section 33-13-220 must demand payment, certify whether he (or the beneficial shareholder on whose behalf he is asserting dissenters' rights) acquired beneficial ownership of the shares before the date set forth in the dissenters' notice pursuant to Section 33-13-220(b)(3), and deposit his certificates in accordance with the terms of the notice.

(b) The shareholder who demands payment and deposits his share certificates under subsection (a) retains all other rights of a shareholder until these rights are canceled or modified by the taking of the proposed corporate action.

(c) A shareholder who does not comply substantially with the requirements that he demand payment and deposit his share certificates where required, each by the date set in the dissenters' notice, is not entitled to payment for his shares under this chapter.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

SECTION 33-13-240. Share restrictions.

(a) The corporation may restrict the transfer of uncertificated shares from the date the demand for payment for them is received until the proposed corporate action is taken or the restrictions are released under Section 33-13-260.

(b) The person for whom dissenters' rights are asserted as to uncertificated shares retains all other rights of a shareholder until these rights are canceled or modified by the taking of the proposed corporate action.

HISTORY: 1988 Act No. 444, Section 2.

SECTION 33-13-250. Payment.

(a) Except as provided in Section 33-13-270, as soon as the proposed corporate action is taken, or upon receipt of a payment demand, the corporation shall pay each dissenter who substantially complied with Section 33-13-230 the amount the corporation estimates to be the fair value of his shares, plus accrued interest.

(b) The payment must be accompanied by:

(1) the corporation's balance sheet as of the end of a fiscal year ending not more than sixteen months before the date of payment, an income statement for that year, a statement of changes in shareholders' equity for that year, and the latest available interim financial statements, if any;

(2) a statement of the corporation's estimate of the fair value of the shares and an explanation of how the fair value was calculated;

(3) an explanation of how the interest was calculated;

(4) a statement of the dissenter's right to demand additional payment under Section 33-13-280; and

(5) a copy of this chapter.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

SECTION 33-13-260. Failure to take action.

(a) If the corporation does not take the proposed action within sixty days after the date set for demanding payment and depositing share certificates, the corporation, within the same sixty-day period, shall return the deposited certificates and release the transfer restrictions imposed on uncertificated shares.

(b) If, after returning deposited certificates and releasing transfer restrictions, the corporation takes the proposed action, it must send a new dissenters' notice under Section 33-13-220 and repeat the payment demand procedure.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

SECTION 33-13-270. After-acquired shares.

(a) A corporation may elect to withhold payment required by section 33-13-250 from a dissenter as to any shares of which he (or the beneficial owner on whose behalf he is asserting dissenters' rights) was not the beneficial owner on the date set forth in the dissenters' notice as the date of the first announcement to news media or to shareholders of the terms of the proposed corporate action, unless the beneficial ownership of the shares devolved upon him by operation of law from a person who was the beneficial owner on the date of the first announcement.

(b) To the extent the corporation elects to withhold payment under subsection (a), after taking the proposed corporate action, it shall estimate the fair value of the shares, plus accrued interest, and shall pay this amount to each dissenter who agrees to accept it in full satisfaction of his demand. The corporation shall send with its offer a statement of its estimate of the fair value of the shares, an explanation of how the fair value and interest were calculated, and a statement of the dissenter's right to demand additional payment under Section 33-13-280.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2] and Section 33-11-290 [1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

SECTION 33-13-280. Procedure if shareholder dissatisfied with payment or offer.

(a) A dissenter may notify the corporation in writing of his own estimate of the fair value of his shares and amount of interest due and demand payment of his estimate (less any payment under Section 33-13-250) or reject the

corporation's offer under Section 33-13-270 and demand payment of the fair value of his shares and interest due, if the:

(1) dissenter believes that the amount paid under Section 33-13-250 or offered under Section 33-13-270 is less than the fair value of his shares or that the interest due is calculated incorrectly;

(2) corporation fails to make payment under Section 33-13-250 or to offer payment under Section 33-13-270 within sixty days after the date set for demanding payment; or

(3) corporation, having failed to take the proposed action, does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within sixty days after the date set for demanding payment.

(b) A dissenter waives his right to demand additional payment under this section unless he notifies the corporation of his demand in writing under subsection (a) within thirty days after the corporation made or offered payment for his shares.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

ARTICLE 3

Judicial Appraisal of Shares

SECTION 33-13-300. Court action.

(a) If a demand for additional payment under Section 33-13-280 remains unsettled, the corporation shall commence a proceeding within sixty days after receiving the demand for additional payment and petition the court to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the sixty-day period, it shall pay each dissenter whose demand remains unsettled the amount demanded.

(b) The corporation shall commence the proceeding in the circuit court of the county where the corporation's principal office (or, if none in this State, its registered office) is located. If the corporation is a foreign corporation without a registered office in this State, it shall commence the proceeding in the county in this State where the principal office (or, if none in this State, the registered office) of the domestic corporation merged with or whose shares were acquired by the foreign corporation was located.

(c) The corporation shall make all dissenters (whether or not residents of this State) whose demands remain unsettled parties to the proceeding as in an action against their shares and all parties must be served with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication, as provided by law.

(d) The jurisdiction of the court in which the proceeding is commenced under subsection (b) is plenary and exclusive. The court may appoint persons as appraisers to receive evidence and recommend decisions on the question of fair value. The appraisers have the powers described in the order appointing them or in any amendment to it. The dissenters are entitled to the same discovery rights as parties in other civil proceedings.

(e) Each dissenter made a party to the proceeding is entitled to judgment for the amount, if any, by which the court finds the fair value of his shares, plus interest, exceeds the amount paid by the corporation.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

SECTION 33-13-310. Court costs and counsel fees.

(a) The court in an appraisal proceeding commenced under Section 33-13-300 shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess costs against all or some of the dissenters, in amounts the court finds equitable, to the extent the court finds the dissenters acted arbitrarily, vexatiously, or not in good faith in demanding payment under Section 33-13-280.

(b) The court also may assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable:

(1) against the corporation and in favor of any or all dissenters if the court finds the corporation did not comply substantially with the requirements of Sections 33-13-200 through 33-13-280; or

(2) against either the corporation or a dissenter, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(c) If the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to these counsel reasonable fees to be paid out of the amounts awarded the dissenters who were benefited.

(d) In a proceeding commenced by dissenters to enforce the liability under Section 33-13-300(a) of a corporation that has failed to commence an appraisal proceeding within the sixty-day period, the court shall assess the costs of the proceeding and the fees and expenses of dissenters' counsel against the corporation and in favor of the dissenters.

HISTORY: Derived from 1976 Code Section 33-11-270 [1962 Code Section 12-16.27; 1952 Code Sections 12-459 to 12-462, 12-633 to 12-635; 1942 Code Sections 7706, 7759; 1932 Code Sections 7706, 7759; 1925 (34) 246; 1926 (34) 1052; 1962 (52) 1996; 1963 (53) 327; 1981 Act No. 146, Section 2; Repealed, 1988 Act No. 444, Section 2]; 1988 Act No. 444, Section 2.

Appendix C

Fairness Opinion of FIG Partners, LLC

March 23, 2015

Carolina Alliance Bank
200 South Church Street
Spartanburg, South Carolina 29306

Members of the Board of Directors:

You have requested our opinion as to the fairness, from a financial point of view, of the Merger Consideration (defined below) to be paid by Carolina Alliance Bank ("*Carolina Alliance*") in connection with the proposed acquisition (the "*Merger*") of PBSC Financial Corporation, Greenville, SC ("*PBSC*") subject to the terms and conditions of the Agreement and Plan of Merger dated March 23, 2015 (the "*Agreement*").

Pursuant to the Agreement, each share of PBSC Common Stock that is issued and outstanding immediately prior to the Effective Time shall be converted into the right to receive one of the following: (i) cash in the amount of $12.00 (the "*Cash Consideration*"); (ii) a number of shares of Carolina Alliance Common Stock equal to the Exchange Ratio (the "*Stock Consideration*"); or (iii) a combination of the Cash Consideration and Stock Consideration (the "*Mixed Consideration*"). Collectively the Stock Consideration, the Cash Consideration and the Mixed Consideration constitute the "*Merger Consideration*". The overall allocation of cash and stock in the transaction shall be at the election of the holder of shares of PBSC Common Stock and is subject to the limitation that the Stock Consideration represents 80% of the Merger Consideration and the Cash Consideration represents 20% of the Merger Consideration (the "Aggregate Cash Limit"); *provided that* if the number of shares that that have elected Cash Consideration exceeds the Aggregate Cash Limit, Carolina Alliance shall have the right, but not the obligation, to accept a number of such shares that that have elected Cash Consideration is greater than the Aggregate Cash Limit; *and provided further that* such acceptance by Carolina Alliance does not cause the aggregate value of all cash paid to holders of PBSC Common Stock to exceed 60% of the aggregate value of the consideration being paid to holders of PBSC Common Stock. The "*Exchange Ratio*" shall be 1.0909 if the Final Carolina Alliance Stock Price is less than or equal to $12.65. If the Final Carolina Alliance Stock Price is greater than $12.65, then the Exchange Ratio shall be equal to $13.80 divided by the Final Carolina Alliance Stock Price. If the Final Carolina Alliance Stock Price is less than $9.35, then each share of PBSC Common Stock eligible to receive the Stock Consideration will be exchanged for 1.0909 shares of Carolina Alliance Common Stock plus an amount of cash equal to the difference between $10.20 and the product of 1.0909 and the Final Carolina Alliance Stock Price. If the Final Carolina Alliance Stock Price is greater than $15.00, then PBSC will have the right to terminate the Merger. If the Final Carolina Alliance Stock Price is less than $8.00, then either Carolina Alliance or PBSC will have the right to terminate the Merger. The terms of the Merger are set forth more fully in the Agreement.

FIG Partners, LLC ("*FIG*"), as part of its investment banking business, is routinely engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bidding, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, we have experience and knowledge of, the valuation of banking institutions. This opinion has been reviewed by FIG's compliance officer consistent with internal policy. FIG has been engaged by Carolina Alliance during the prior two years and we have received compensation for services provided.

We were retained by Carolina Alliance to act as its financial advisor in connection with the Merger and in rendering this opinion. We will receive compensation from Carolina Alliance in connection with our services and Carolina Alliance has agreed to indemnify us for certain liabilities arising out of our engagement.

During the course of our engagement and for the purposes of the opinion set forth herein, we have:

(i) reviewed the Agreement and terms of the Merger;

(ii) reviewed certain historical publicly available business and financial information concerning Carolina Alliance and PBSC including, among other things, quarterly and annual reports filed by the parties with the FDIC and the Federal Reserve;

(iii) reviewed the audited financial statements for Carolina Alliance and PBSC for the years 2014 and 2013;

(iv) reviewed certain internal financial statements and other financial and operating data concerning Carolina Alliance and PBSC;

(v) analyzed certain financial projections prepared by the management of Carolina Alliance and PBSC;

(vi) held discussions with members of the senior management of Carolina Alliance for the purpose of reviewing the future prospects of Carolina Alliance and PBSC Bancorp, including financial forecasts related to the respective businesses, earnings, assets, liabilities and the amount and timing of cost savings (the "*Synergies*") expected to be achieved as a result of the Merger;

(vii) reviewed the terms of recent merger and acquisition transactions, to the extent publicly available, involving banks and bank holding companies that we considered relevant; and

(viii) performed such other analyses and considered such other factors as we have deemed appropriate.

We also took into account our assessment of general economic, market and financial conditions and our experience in other transactions as well as our knowledge of the banking industry and our general experience in securities valuation.

In rendering this opinion, we have assumed and relied on, without independent verification, the accuracy and completeness of the financial and other information and representations contained in the materials provided to us by Carolina Alliance and PBSC in the discussions with the Company. In that regard, we have assumed that the financial forecasts, including, without limitation, the Synergies and projections regarding under-performing and nonperforming assets and net charge-offs have been reasonably prepared on a basis reflecting the best currently-available information and judgments and estimates of Carolina Alliance and PBSC, and that such forecasts will be realized in the amounts and at the times contemplated thereby. We are not experts in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect thereto and have assumed that such allowances for Carolina Alliance and PBSC are in the aggregate adequate to cover such losses. We were not retained to and did not conduct a physical inspection of any of the properties or facilities of Carolina Alliance and PBSC. In addition, we have not reviewed individual credit files nor have we made an independent evaluation or appraisal of the assets and liabilities of Carolina Alliance and PBSC or any of their respective subsidiaries and we were not furnished with any such evaluations or appraisals.

We have assumed that the Merger will be consummated substantially in accordance with the terms set forth in the Agreement. We have further assumed that the Merger will be accounted for as a purchase under generally accepted accounting principles. We have assumed that the merger is, and will be, in compliance with all laws and regulations that are applicable to Carolina Alliance and PBSC. In rendering this opinion, we have been advised by Carolina Alliance and PBSC and we have assumed that there are no factors that would impede any necessary regulatory or governmental approval of the Merger.

The opinion is based solely upon the information available to us and the economic, market and other circumstances, as they exist as of the date hereof. Events occurring and information that becomes available after the date hereof could materially affect the assumptions and analyses used in preparing this opinion. We have not undertaken to reaffirm or revise this opinion or otherwise comment upon any events occurring or information that becomes available after the date hereof, except as otherwise agreed in our engagement letter.

This letter is solely for the information of the Board of Directors of Carolina Alliance and is not to be used, circulated, quoted or otherwise referred to for any other purpose, nor is it to be filed with, included in or referred to in whole or in part in any proxy statement or any other document, except in each case in accordance with our prior written consent which shall not be unreasonably withheld; provided, however, that we hereby consent to the inclusion and reference to this letter in any proxy statement, information statement or tender offer document to be delivered to the holders of Carolina Alliance common stock in connection with the Merger if and only if this letter is quoted in full or attached as an exhibit to such document and this letter has not been withdrawn prior to the date of such document.

Subject to the foregoing and based on our experience as investment bankers, our activities and assumptions as described above, and other factors we have deemed relevant, we are of the opinion as of the date hereof that the Merger Consideration is fair, from a financial point of view, to the shareholders of Carolina Alliance.

Sincerely,

FIG PARTNERS, LLC

Appendix D

Fairness Opinion of SunTrust Robinson Humphrey, Inc.



SUNTRUST
ROBINSON HUMPHREY

March 23, 2015

Board of Directors
PBSC Financial Corporation
937 North Pleasantburg Drive
Greenville, SC 29607

Members of the Board of Directors:

We understand that PBSC Financial Corporation (the "Company") proposes to enter into an Agreement and Plan of Merger (the "Agreement") by and among the Company, Pinnacle Bank of South Carolina ("Pinnacle Bank") and Carolina Alliance Bank (the "Acquiror"), pursuant to which, among other things, the Company will be merged with and into the Acquiror (the "Transaction") and that in connection with the Transaction each issued and outstanding share of common stock of the Company (the "Company Common Stock") not held by (i) the Company, Pinnacle Bank or the Acquiror, in each case other than on behalf of third parties or as a result of debts previously contracted, or (ii) holders who properly perfect their right to dissent under applicable law (the holders described in clauses (i) and (ii), together with all persons who have entered into a Support Agreement (as defined in the Merger Agreement), are referred to herein as the "Excluded Holders") will be converted into the right to receive, at the option of the holder thereof and subject to certain limitations and proration procedures contained in the Agreement (as to which we express no opinion), (a) $12.00 in cash (the "Cash Consideration"), (b) a number of shares of common stock of the Acquiror (the "Acquiror Common Stock") determined based on the volume weighted average price (rounded to the nearest cent) of Acquiror Common Stock on the OTCQB Venture Marketplace maintained by OTC Markets Group, Inc. or, if not reported therein, in another authoritative source mutually selected by Acquiror and Pinnacle Bank (the "Final Acquiror Common Stock Price") during the 20 consecutive trading days ending on the fifth business day immediately prior to the date on which the Transaction is to be consummated as follows: (1) if the Final Acquiror Common Stock Price is greater than $12.65, a number of shares equal to $13.80 divided by the Final Acquiror Common Stock Price, (2) if the Final Acquiror Common Stock Price is less than or equal to $12.65, 1.0909 shares and (3) if the Final Acquiror Common Stock Price is less than $9.35, 1.0909 shares plus an additional amount in cash equal to the difference between $10.20 and the product of 1.0909 and the Final Acquiror Common Stock Price (the "Stock Consideration"), or (c) a combination of the Cash Consideration and the Stock Consideration (the "Mixed Consideration"). The aggregate Cash Consideration, Stock Consideration and Mixed Consideration to be received by holders of Company Common Stock in the Transaction pursuant to the Agreement is referred to as the "Merger Consideration."

You have requested that SunTrust Robinson Humphrey, Inc. ("STRH") render its opinion (this "Opinion") to the Board of Directors of the Company (solely in its capacity as such) (the "Board of Directors") with respect to the fairness, from a financial point of view, of the Merger Consideration to be received in the Transaction pursuant to the Agreement by the holders of the Company Common Stock (but excluding the Excluded Holders).

In connection with this Opinion, we have conducted such reviews, analyses and inquiries as we have deemed necessary and appropriate under the circumstances. Among other things, we have reviewed the Merger Agreement, dated March 23, 2015; certain business and financial information relating to the Company, Pinnacle Bank and the Acquiror; certain non-public internal and audited and unaudited

financial statements of the Company, Pinnacle Bank and the Acquiror and certain other information relating to the historical, current and future business, financial condition, results of operations, asset quality, operating data and prospects of the Company and the Acquiror made available to us by the Company and the Acquiror, including certain financial projections prepared by the management of the Company relating to the Company (the "Projections"); the current and projected financial and operating performance of the Acquiror and the Company as compared to that of other companies with publicly traded equity securities that we deemed relevant; the publicly available financial terms of certain transactions that we deemed relevant; and current and historical market conditions and certain financial, stock market and other publicly available information relating to the business of other companies and banks whose operations we considered relevant. We also have had discussions with certain members of the management of the Company and the Acquiror regarding the Transaction and the business, financial condition, assets, results of operations and prospects of the Company and the Acquiror and have undertaken such other studies, analyses and investigations as we deemed appropriate.

We have relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished or otherwise made available to, discussed with or reviewed by us, and do not assume any responsibility with respect to such data, material and other information. Our role in reviewing such data, material and other information was limited solely to performing such review as we deemed necessary and appropriate to support this Opinion. In addition, we have assumed, at the direction of the Company and without independent verification or investigation, that the Projections have been reasonably prepared in good faith on bases reflecting the best currently available information, estimates and judgments of management of the Company and management of the Acquiror as to the future financial results and condition of the Company and the Acquiror. We express no opinion with respect to the Projections or the assumptions on which they are based, or any other assumptions discussed herein. We have relied upon and assumed, without independent verification, that there has been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company or the Acquiror since the respective dates of their most recent financial statements and other information, financial or otherwise, provided to us and that there is no information, facts or circumstances that would make any of the data, material or other information discussed with or reviewed by us inaccurate, incomplete or misleading.

We also have relied upon and assumed without independent verification that (i) the representations and warranties of all parties to the Agreement are true and correct; (ii) each party to the Agreement will fully and timely perform all of the covenants and agreements required to be performed by such party under the Agreement; (iii) all conditions to the consummation of the Transaction will be satisfied without waiver thereof; (iv) the Transaction will be consummated in accordance with the terms of the Agreement without waiver, modification or amendment of any term, condition or agreement therein; and (v) in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Transaction, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the Company, the Acquiror or the expected benefits of the Transaction. We also have assumed that the Transaction will be treated as a tax-free reorganization for federal income tax purposes.

Furthermore, in connection with this Opinion, we have not been requested to review, and have not reviewed, individual credit files, nor have we been requested to make, and have not made, any physical inspection or independent appraisal or evaluation of any of the assets, properties, facilities or liabilities (including any fixed, contingent, derivative or off-balance-sheet assets or liabilities or any

portfolio securities or any collateral securing assets or securities) of the Company, Pinnacle Bank, the Acquiror or any other person or entity, nor were we provided with any such appraisal or evaluation. In addition, we are not experts in the evaluation of loan or lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect to such portfolios or for any other purpose and, accordingly, we have assumed, without independent investigation or verification, that the Company's and the Acquiror's allowances for such losses are in the aggregate adequate to cover any such losses. We have undertaken no independent analysis of any potential or actual litigation, regulatory action, governmental investigation, possible unasserted claims or other contingent liabilities to which the Company, Pinnacle Bank, the Acquiror or any other person or entity is or may be a party or is or may be subject.

This Opinion is necessarily based on financial, economic, monetary, market and other conditions as in effect on, and the data, material and other information made available to us as of, the date hereof. We have no obligation to update, revise, reaffirm or withdraw this Opinion or otherwise comment upon events occurring or information that becomes available after the date hereof.

This Opinion only addresses the fairness, from a financial point of view, of the Merger Consideration to be received in the Transaction pursuant to the Agreement by the holders of the Company Common Stock (but excluding the Excluded Holders) and does not address any other term, aspect or implication of the Transaction or any agreement, arrangement or understanding entered into in connection therewith or otherwise. We have not been requested to opine as to, and this Opinion does not express an opinion as to or otherwise address, among other things: (i) the underlying business decision of the Company, its security holders or any other person or entity to proceed with or effect the Transaction; (ii) the form, structure or any other portion or aspect of the Transaction; (iii) the fairness of any portion, term, aspect or implication of the Transaction to the holders of debt of the Company, or any particular holder of securities, creditors or other constituencies of the Company, or to any other person or entity, except as expressly set forth in the last paragraph of this Opinion; (iv) the relative merits of the Transaction as compared to any alternative business strategies that might exist for the Company or any other person or entity or the effect of any other transaction in which the Company or any other person or entity might engage; (v) whether or not the Acquiror, the Company, its security holders or any other person or entity is receiving or paying reasonably equivalent value in the Transaction; (vi) the solvency, creditworthiness, viability, ability to pay debts when due or fair value of the Company, the Acquiror or any other participant in the Transaction, or any of their respective assets, including under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters, or the impact of the Transaction on such matters; (vii) the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation to or consideration payable to or received by any officers, directors or employees of any party to the Transaction or any class of such persons; (viii) the fairness of any term or aspect of the Transaction to any one class of the Company's security holders relative to any other class of the Company's security holders, including the allocation of any consideration among or within such classes; or (ix) the fairness of the Cash Consideration, Stock Consideration and Mixed Consideration relative to one another.

Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from appropriate professional sources. Furthermore, we have relied, with your consent, on the assessments by the Company and the Board of Directors and their respective advisors as to all legal, regulatory, accounting, insurance and tax matters

with respect to the Company, the Acquiror and the Transaction. We have not been asked to, nor do we, offer any opinion as to any terms or conditions of the Agreement or the form of the Transaction, other than as expressly set forth in the last paragraph of this Opinion with respect to the Merger Consideration. We are not expressing any opinion as to what the value of the Acquiror Common Stock actually will be when issued pursuant to the Agreement or the price or range of prices or volume at which shares of Acquiror Common Stock may trade at any time, including following public announcement or consummation of the Transaction.

We have acted as financial advisor to the Board of Directors in connection with the Transaction and will receive a fee for our services, a portion of which is payable upon delivery of this Opinion and a portion of which is contingent upon the consummation of the Transaction. In addition, the Company has agreed to reimburse certain of our expenses and to indemnify us and certain related parties for certain liabilities arising out of our engagement. [We and our affiliates (including SunTrust Bank) have in the past provided and are currently providing investment banking and other financial services to [the Company/the Acquiror], including, during the past two years, [describe the specific products or services provided]]. We and our affiliates (including SunTrust Bank) may also have in the past provided, and may in the future provide, investment banking and other financial services to the Company, the Acquiror and certain of their affiliates for which we and our affiliates have received and would expect to receive compensation. We are a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates (including SunTrust Bank) may acquire, hold or sell, for our and our affiliates' own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of the Company, the Acquiror, their respective affiliates and any other party that may be involved in the Transaction, as well as provide investment banking and other financial services to such persons or entities, including for which we and our affiliates would expect to receive compensation. In addition, we and our affiliates (including SunTrust Bank) may have other financing and business relationships with the Company, the Acquiror, their respective affiliates and any other person or entity that may be involved with the Transaction.

This Opinion is furnished solely for the use of the Board of Directors (solely in its capacity as such) in connection with its evaluation of the Transaction, and may not be used by the Board of Directors for any other purpose (or by any other person or entity for any purpose) without our prior written consent. This Opinion may not be quoted or referred to, in whole or in part, in any registration statement, prospectus, proxy statement or other similar document, or in any document used in connection with the offering or sale of securities, nor shall this Opinion be disclosed to any other person or entity without our prior written consent, except that we consent to a copy of this Opinion being reproduced in full and otherwise referred to in the Company's proxy statement with respect to the Transaction, provided that all references to us or this Opinion in any such documents and the description of this Opinion therein shall be subject to our prior approval. This Opinion should not be construed as creating any fiduciary duty on the part of STRH to any person or entity. This Opinion is not intended to be, and does not constitute, a recommendation to the Board of Directors, the Company, any security holder of the Company or any other person or entity as to how to act or vote with respect to any matter relating to the Transaction or otherwise, including, without limitation, whether a holder of Company Common Stock should elect to receive the Cash Consideration, the Stock Consideration or the Mixed Consideration. The issuance of this Opinion has been approved by an internal committee of STRH authorized to approve opinions of this nature.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Merger Consideration to be received in the Transaction pursuant to the Agreement by the holders of the Company Common Stock is fair, from a financial point of view, to the holders of the Company Common Stock (but excluding the Excluded Holders).

SUNTRUST ROBINSON HUMPHREY, INC.

SunTrust Robinson Humphrey, Inc.

Appendix E

Carolina Alliance Financial Information

Appendix E

Carolina Alliance Financial Information

CAROLINA ALLIANCE BANK AND SUBSIDIARY
Financial Statements

As of and for the Years Ended December 31, 2014 and 2013

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elliott davis decosimo

Independent Auditor's Report

To the Board of Directors
Carolina Alliance Bank and Subsidiary
Spartanburg, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Carolina Alliance Bank and Subsidiary which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carolina Alliance Bank and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Columbia, South Carolina
March 30, 2015

CAROLINA ALLIANCE BANK AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2014 and 2013

	2014	2013
Assets:		
Cash and due from banks	**$ 6,698,634**	$ 5,692,846
Federal funds sold and interest bearing bank balances	**722,691**	855,115
Total cash and cash equivalents	**7,421,325**	6,547,961
Bank term deposits	**4,731,000**	6,723,000
Investment securities, available for sale	**60,776,574**	44,547,635
Other investments	**1,262,500**	389,000
Loans and finance leases, net	**326,872,734**	179,330,714
Property and equipment, net	**7,165,761**	6,699,194
Leased assets, net	**3,648,196**	-
Deferred tax asset	**905,332**	1,048,465
Core deposit intangible	**947,704**	-
Accrued interest	**1,111,812**	705,547
Other assets	**2,956,561**	1,393,097
Total assets	**$ 417,799,499**	$ 247,384,613
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits	**$ 338,391,498**	$ 203,499,827
Securities sold under agreements to repurchase	**5,992,085**	10,142,253
Advances from FHLB of Atlanta	**19,600,000**	1,000,000
Accrued interest	**59,050**	44,428
Other liabilities	**1,487,422**	720,233
Total liabilities	**365,530,055**	215,406,741
Commitments and contingencies (Notes 11, 12 and 20)		
Shareholders' Equity:		
Preferred stock, $1.00 par value, 10,000,000 shares authorized; 5,000 shares issued and outstanding at December 31, 2014 and 2013, respectively	**5,000**	5,000
Common stock, $1.00 par value, 10,000,000 shares authorized; 4,560,660 and 2,511,959 issued and outstanding at December 31, 2014 and 2013, respectively	**4,560,733**	2,511,959
Additional paid-in capital	**44,531,008**	28,969,360
Retained earnings	**2,841,532**	643,204
Accumulated other comprehensive income (loss)	**331,171**	(151,651)
Total shareholders' equity	**52,269,444**	31,977,872
Total liabilities and shareholders' equity	**$ 417,799,499**	$ 247,384,613

The accompanying notes are an integral part of these consolidated financial statements. Paid in capital, retained earnings, and common shares outstanding have been adjusted to reflect the 10 percent stock dividend in 2014.

CAROLINA ALLIANCE BANK AND SUBSIDIARY

Consolidated Statements of Income

For the Years Ended December 31, 2014 and 2013

	2014	2013
Interest Income:		
Interest and fees on loans and finance leases	**$ 14,334,373**	$ 8,581,012
Investment securities	**1,314,717**	983,687
Federal funds sold and interest bearing bank deposits	**69,013**	53,346
Total interest income	**15,718,103**	9,618,045
Interest Expense:		
Deposits	**939,570**	732,496
Other	**102,917**	88,442
Total interest expense	**1,042,487**	820,938
Net Interest Income	**14,675,616**	8,797,107
Provision for Loan and Lease Losses	**1,098,129**	475,000
Net Interest Income After Provision for Loan and Lease Losses	**13,577,487**	8,322,107
Non-Interest Income:		
Operating lease income	**1,117,046**	-
Service fees on deposit accounts	**289,106**	238,247
Mortgage brokerage income	**121,894**	60,677
Other income	**241,131**	185,071
Gain on sale of securities available for sale	**15,776**	6,619
Gain (loss) on other real estate owned and repossessed assets	**15,310**	(122,872)
Gain on sale of Small Business Administration loans	**120,515**	-
Bargain purchase gain on merger transaction	**3,817,576**	-
Total non-interest income	**5,738,354**	367,742
Non-Interest Expense:		
Salaries and benefits	**6,661,847**	4,045,119
Occupancy, furniture, and equipment	**1,011,788**	542,310
Operating lease expense	**992,192**	-
Data processing and computer network	**958,444**	581,750
Marketing	**262,732**	179,639
Printing, supplies, and postage	**134,822**	90,165
Core deposit intangible amortization	**177,787**	-
Merger-related expenses	**579,720**	373,956
Other operating	**1,336,555**	1,004,715
Total non-interest expense	**12,115,887**	6,817,654
Income Before Income Taxes	**7,199,954**	1,872,195
Income Tax Expense	**1,095,054**	789,402
Net Income	**6,104,900**	1,082,793
Dividends on Preferred Shares	**50,000**	50,000
Net Income Available to Common Shareholders	**$ 6,054,900**	$ 1,032,793
Basic Income per Common Share	**$ 1.48**	$ 0.37
Diluted Income per Common Share	**$ 1.45**	$ 0.37
Weighted Average Common Shares Outstanding:		
Basic	**4,101,338**	2,756,916
Diluted	**4,170,562**	2,759,946

The accompanying notes are an integral part of these consolidated financial statements. Earnings per share and weighted average common shares outstanding have been adjusted to reflect the 10 percent stock dividend in 2014.

CAROLINA ALLIANCE BANK AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2014 and 2013

	2014		2013	
Net Income		**$ 6,104,900**		$ 1,082,793
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on investment securities available for sale, pretax	**$ 832,687**		$ (1,644,898)	
Income tax effect	**(340,538)**	**492,149**	629,065	(1,015,833)
Reclassification of gain on sale of investment securities included in net income, pretax	**(15,776)**		(6,619)	
Income tax effect	**6,449**	**(9,327)**	2,707	(3,912)
Total other comprehensive income (loss)		**482,822**		(1,019,745)
Comprehensive Income		**$ 6,587,722**		$ 63,048

The accompanying notes are an integral part of these consolidated financial statements.

CAROLINA ALLIANCE BANK AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2014 and 2013

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	5,000	$ 5,000	2,500,000	$ 2,500,000	$28,775,231	$ (389,589)	$ 868,094	$31,758,736
Stock transactions:								
For stock-based compensation	-	-	-	-	95,736	-	-	95,736
For directors' compensation			11,959	11,959	98,393			110,352
Preferred stock dividends	-	-	-	-	-	(50,000)	-	(50,000)
Net income	-	-	-	-	-	1,082,793	-	1,082,793
Other comprehensive loss	-	-	-	-	-	-	(1,019,745)	(1,019,745)
Balance, December 31, 2013	**5,000**	**5,000**	**2,511,959**	**2,511,959**	**28,969,360**	**643,204**	**(151,651)**	**31,977,872**
Stock transactions:								
For stock-based compensation	-	-	-	-	**108,243**	-	-	**108,243**
For directors' compensation	-	-	**11,416**	**11,416**	**94,443**	-	-	**105,859**
In connection with merger transaction	-	-	**1,622,746**	**1,622,746**	**11,918,050**	-	-	**13,540,796**
Cash paid in lieu of fractional shares in connection with merger	-	-	-	-	**(368)**	-	-	**(368)**
10% common stock dividend, net of 73 fractional shares	-	-	**414,539**	**414,539**	**3,441,280**	**(3,855,892)**	-	-
Cash paid in lieu of fractional shares for 10% stock dividend	-	-	-	-	-	**(680)**	-	**(680)**
Preferred stock dividends						**(50,000)**	-	**(50,000)**
Net income	-	-	-	-	-	**6,104,900**	-	**6,104,900**
Other comprehensive income	-	-	-	-	-	-	**482,822**	**482,822**
Balance, December 31, 2014	**5,000**	**$ 5,000**	**4,560,660**	**$ 4,560,733**	**$44,531,008**	**$ 2,841,532**	**$ 331,171**	**$52,269,444**

The accompanying notes are an integral part of these consolidated financial statements.

CAROLINA ALLIANCE BANK AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities:		
Net income	**$ 6,104,900**	$ 1,082,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**1,098,129**	475,000
Accretion on acquired loans and deposits, net	**(1,411,029)**	-
Depreciation	**1,475,024**	344,128
Stock compensation	**108,243**	95,736
Deferred income tax expense	**1,005,513**	14,430
Amortization of premiums on investment securities, net	**388,654**	361,593
Gain on sale of investment securities available for sale	**(15,776)**	(6,619)
Net (gain) loss on other real estate owned	**(15,310)**	122,872
Gain on sale of Small Business Administration loans	**(120,515)**	-
Proceeds from sale of Small Business Administration loans	**1,789,658**	-
Bargain purchase gain on merger transaction	**(3,817,576)**	-
Decrease in other assets	**651,808**	149,583
Increase in other liabilities	**212,939**	177,531
Net cash provided by operating activities	**7,454,662**	2,817,047
Investing Activities:		
Increase in loans and finance leases, net	**(28,258,027)**	(8,232,002)
Purchase of investments:		
Investment securities available for sale	**(7,220,949)**	(11,527,866)
Bank term deposits	**(1,743,000)**	(3,984,000)
Other investments	**(477,000)**	-
Purchase of property and equipment	**(548,262)**	(178,354)
Purchase of leased assets	**(1,165,833)**	-
Proceeds from investment transactions:		
Principal payments on investment securities available for sale	**8,156,051**	10,288,174
Maturities and calls of investment securities available for sale	**1,552,300**	-
Sales of investment securities available for sale	**2,075,100**	1,587,881
Maturity of bank term deposits	**3,735,000**	2,241,000
Redemption of other investments	**188,700**	59,400
Net cash received from merger	**3,955,731**	-
Proceeds from sale of other real estate owned	**472,103**	378,324
Net cash used for investing activities	**(19,278,086)**	(9,367,443)
Financing Activities:		
Net increase (decrease) in deposits	**6,192,145**	(5,854,124)
Issuance of common stock and cash in lieu	**104,811**	110,352
Dividends paid on preferred stock	**(50,000)**	(50,000)
Borrowings from FHLB of Atlanta	**11,600,000**	-
Repayment of borrowings from FHLB of Atlanta	**(1,000,000)**	(1,000,000)
Net (decrease) increase in securities sold under agreements to repurchase	**(4,150,168)**	4,830,725
Net cash provided by (used for) financing activities	**12,696,788**	(1,963,047)
Net Increase (Decrease) in Cash and Cash Equivalents	**873,364**	(8,513,443)
Cash and Cash Equivalents, Beginning of Period	**6,547,961**	15,061,404
Cash and Cash Equivalents, End of Period	**$ 7,421,325**	$ 6,547,961

The accompanying notes are an integral part of these consolidated financial statements.

CAROLINA ALLIANCE BANK AND SUBSIDIARY *(Continued)*

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	2014	2013
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	**$ 1,027,865**	$ 837,047
Income taxes paid	**$ 934,031**	$ 751,679
Non-cash transactions:		
Loans transferred to other real estate owned	**$ 1,032,163**	$ 621,842
Loans transferred to repossessed collateral	**$ -**	$ 88,000
Unrealized gains (losses) on investment securities	**$ 832,687**	$ (1,644,898)
Deferred income taxes on unrealized securities losses and gains	**$ 340,538**	$ 629,065
Reclassification of gain on sale of investment securities included in net income	**$ (15,776)**	$ (6,619)
Deferred income taxes on securities gains reclassified	**$ 6,449**	$ 2,707

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Carolina Alliance Bank (the "Bank") was incorporated and began operations in January 2007 and provides a broad array of commercial banking services to its customers. The Bank is subject to regulation of the South Carolina State Board of Financial Institutions and the Federal Deposit Insurance Corporation.

On April 5, 2014, Forest Commercial Bank ("Forest Commercial") was merged with and into the Bank (the "Merger"), with the Bank as the surviving legal entity, in accordance with an Agreement and Plan of Merger dated as of August 7, 2013. See Note 2 – *BUSINESS COMBINATIONS* for complete details on this transaction.

On August 4, 2014, the Bank acquired the commercial leasing operations of Dave McBride Leasing, LLC. See Note 2 – *BUSINESS COMBINATIONS* for complete details on this transaction.

Basis of Presentation - The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, NSCB 2, LLC (whose only business activity is the holding of title to certain operating real estate). Significant intercompany balances and transactions have been eliminated. The accounting policies and reporting practices conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices in the banking industry.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates.

Nature of Operations and Concentrations of Credit Risk - The Bank is engaged in the business of accepting demand and time deposits and providing loans to individuals and businesses. The Bank's business is limited primarily to Spartanburg and adjacent counties in the northwestern area of South Carolina. The Bank has a diversified loan portfolio and the borrowers' ability to repay their loans is not dependent upon any specific economic sector.

Disclosure Regarding Segments - The Bank reports as one operating segment, as the chief operating decision-maker reviews the results of operations of the Bank as a single enterprise.

Reclassifications - Certain amounts previously reported have been reclassified to conform to the current presentation of these consolidated financial statements. These reclassifications had no effect on previously reported net income or shareholders' equity.

Business Combinations and Method of Accounting for Loans Acquired - Acquisitions are accounted for under the acquisition method of accounting. A business combination occurs when the Bank acquires net assets that constitute a business, or acquires equity interests in one or more other entities that are businesses and obtains control over those entities. Business combinations are effected through the transfer of consideration consisting of cash and/or common stock. The assets and liabilities of the acquired entity are recorded at their respective fair values as of the acquisition date. When the fair value of the assets purchased exceeds the fair value of liabilities assumed, it results in a "bargain purchase gain." If the consideration given exceeds the fair value of the net assets received, goodwill is recognized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Determining the fair value of assets and liabilities, especially the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the acquisition date, as relevant information becomes available. The results of operations of acquired entities are included in the Bank's consolidated results from the acquisition date, and prior periods are not restated. No allowance for loan and lease losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding future credit losses. The fair value estimates associated with the acquired loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 30, 2015 the date the financial statements were issued, and determined that no subsequent events have occurred requiring accrual or disclosure, except as disclosed in Note 20.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, short-term interest bearing deposits and federal funds sold. Cash and cash equivalents have an original maturity of three months or less. Bank term deposits, consisting of FDIC-insured certificates of deposits with original maturities in excess of three months, are not included in cash and cash equivalents.

Investment Securities - Investments in debt and equity securities are required to be classified into one of three categories: "trading," "held to maturity," or "available for sale." During the reporting periods, the Bank held no trading or held to maturity securities. Available for sale securities are debt and equity securities which are not classified as either trading or as held to maturity securities. These securities are reported at fair market value. Net unrealized gains and losses are reported as a separate component of shareholders' equity.

Gains or losses on dispositions of investment securities are determined on a trade date basis and are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Premiums and discounts are amortized or accreted into interest income by a method that approximates a level yield.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank periodically evaluates its investment securities portfolio for "other-than-temporary impairment." If a security is considered to be other-than-temporarily impaired, the related unrealized loss is charged to income, and a new cost basis is established. Factors considered include the reasons for the impairment; the severity and duration of the impairment; changes in value subsequent to period-end; and forecasted performance of the security issuer. Impairment is considered other-than-temporary unless the Bank has both the intent and ability to hold the security for a sufficient period of time to allow the fair market value to recover and evidence supporting the recovery outweighs evidence to the contrary.

Other Investments **-** Other investments consists of stock in the Federal Home Loan Bank of Atlanta ("FHLB") which the Bank is required to own as a member institution. Transfer of the stock is restricted, no ready market exists, and it has no quoted market value. However, redemption of the stock historically has been at par value; therefore it is stated at the Bank's cost basis.

Loans, Interest, and Fee Income on Loans and Leases **-** Loans and finance leases are stated at the principal balance outstanding and reduced by the allowance for loan and lease losses. Loan and lease origination fees and certain direct loan origination costs are deferred and the net amount is accreted or amortized as an adjustment of the related yield over the contractual life of the loan or lease. Loan and lease origination fees and costs are netted and the net amount either reduces or increases net loans and leases outstanding. Interest income is recognized over the term of the loan or lease based on the contractual interest rate and the principal balance outstanding.

Purchased Credit-Impaired ("PCI") Loans - Purchased loans acquired in a business combination, which include loans purchased in the Merger, are recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan and lease losses. PCI loans are accounted for under the "Receivables" topic of the ASC when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Bank will not collect all contractually required principal and interest payments. Purchased impaired loans generally meet the Bank's definition for nonaccrual status. The Merger with Forest Commercial included only two PCI loans, whose combined book balance totaled less than $100 thousand at December 31, 2014.

Purchased Performing Loans - The Bank accounts for performing loans acquired in business combinations using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan and lease losses established at the acquisition date for purchased performing loans. A provision for loan and lease losses is recorded for any further deterioration in these loans subsequent to the acquisition.

Loans generally are placed on non-accrual status when principal or interest becomes 90 days past due, or when payment in full is not anticipated. Interest payments received after a loan is placed in non-accrual status are applied as principal reductions until such time as the loan is returned to accrual status. Generally, a loan is returned to accrual status when the loan is brought current and the collectability of principal and interest is no longer in doubt.

Allowance for Loan and Lease Losses **-** The Bank provides for loan and lease losses using the allowance method. Provisions for loan and lease losses are added to the allowance through charges to operating expenses. Loans and leases which are determined to be uncollectible are charged against the allowance and recoveries on loans and leases previously charged off are added to the allowance. The provision for loan and lease losses charged to operations is an amount sufficient to bring the allowance for loan and lease losses to an estimated balance considered adequate to absorb losses inherent in the portfolio.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, historical loan and lease loss experience, and other risk factors. While management uses the best information available to make evaluations, future adjustments may be necessary if economic and other conditions differ substantially from the assumptions used. The allowance for loan and lease losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

A loan is considered to be impaired when full payment according to the terms of the loan agreement is not probable or when the terms of a loan are modified in a troubled debt restructuring ("TDR"). The fair value of impaired loans may be determined based upon the present value of expected cash flows discounted at the loan's effective interest rate, the market price of the loan, if available, or, if the loan is collateral-dependent, the value of the underlying collateral, less estimated selling costs when foreclosure is imminent.

The treatment of the loan impairment is based on the status of the borrower and the underlying collateral. In general, the impairment is charged-off for collateral-dependent loans and consumer loans. For all other loans, a portion of the allowance for loan and lease losses is allocated specifically to each impaired loan. When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once payments equal to the outstanding principal balance have been received, further cash receipts are applied to interest income, to the extent that any interest has been foregone.

Property and Equipment - Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Building and fixtures have estimated useful lives of 10 to 40 years and furniture and equipment have estimated useful lives of 3 to 15 years. Maintenance and repairs are charged to operations, while major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and the gain or loss is included in income from operations.

Leased Assets - The Bank has purchased construction and athletic equipment that it leases to customers under operation lease agreements with varying terms. The value of the lease asset (or lease or rental equipment) is recorded at cost and depreciated on the straight-line bases over the estimated useful life (3 to 5 years), after the date the equipment is put in service, and depreciated down to their estimated residual values. The Bank periodically reviews the residual values of leased assets for impairment using various factors, including the practices and benchmarks of the larger competitors in the particular industry.

Costs incurred on leased equipment subsequent to initial acquisition are capitalized when it is probable that future economic benefits in excess of the originally assessed performance will result; otherwise, they are expensed as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned and Repossessed Assets - Other real estate owned is comprised of real property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Repossessed assets include personal property acquired through conveyance in satisfaction of debts. Other real estate owned and repossessed assets are recorded at the lower of the recorded investment in the loan at the time of acquisition or the fair value of the underlying property collateral, less estimated selling costs. Any write-down in the carrying value of a property at the time of acquisition is charged to the allowance for loan and lease losses. Any subsequent write-downs to reflect current fair market value, as well as gains and losses on disposition and revenues and expenses incurred in maintaining such properties, are treated as period costs. Other real estate owned and repossessed assets are included in "Other assets" in the balance sheet and balances are summarized in Note 4.

Intangible Assets - Intangible assets are substantially all comprised of the core deposit intangible that resulted from the merger with Forest Commercial. Core deposit intangibles represent the value of long-term deposit relationships acquired in a business combination. The core deposit intangible is being amortized over seven years using the 150% declining balance method. This amortization method is used to match the recognition of the cost of the asset to the estimated lives of the underlying deposit relationships. These estimated useful lives are periodically reviewed for reasonableness.

Advertising - Advertising, promotional, and other business development costs generally are expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Stock Dividend - On September 5, 2014 the board of directors declared a ten percent stock dividend of the Bank's common shares, distributed on October 7, 2014. All references to share and per share amounts in the statements of operations and accompanying notes to the financial statements have been retroactively restated to reflect the ten percent stock dividend.

Stock-Based Compensation - The Bank adopted a stock option plan on May 21, 2007. The fair value of the stock options issued under the plan is expensed over the vesting period of each option grant. Further information about the plan and the methodology to determine the fair value of stock options is detailed in Note 15.

Income Taxes - The asset and liability approach is utilized to account for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying values and the tax bases of assets and liabilities, as well as net operating loss carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. A current tax asset or liability is recognized for taxes that are presently payable and included in "Other assets" in the balance sheet.

The Bank has analyzed its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Bank believes that income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Bank's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share - Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares consist solely of dilutive stock options determined by the treasury stock method using the average market price of the shares during the period. The dilutive effect of stock options outstanding on earnings per share at December 31, 2014 and 2013 was either insignificant or non-existent. All earnings per share amounts have been restated to reflect the ten percent stock dividend issued in October 2014.

Sales of Loans – Gains and losses on the sales of loans are accounted for as the difference between the proceeds received and the carrying value of the loans. Such gains or losses are recognized in the financial statements at the time of the sale.

Comprehensive Income - Comprehensive income consists of net income and net unrealized gains and losses on investment securities available for sale and is presented in the Consolidated Statements of Changes in Shareholders' Equity and in the separate Consolidated Statements of Comprehensive Income.

Fair Value Measurements - Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair values are determined under a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs in the measurement process. There are three levels of inputs that may be used to measure fair value:

Level 1: These inputs principally consist of quoted prices in active markets for identical assets or liabilities. (The Bank has no assets or liabilities measured by the use of Level 1 inputs.)

Level 2: Observable inputs such as quoted prices for similar assets or liabilities or other inputs that are observable or can be corroborated by observable market data are the primary types of measurements that comprise Level 2.

Level 3: Unobservable inputs that are supported by little or no market activity or that may involve using pricing models, discounted cash flow methodologies, or similar techniques are included in this level. The determination of values also may require significant management judgment or estimation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards - In February 2013, the Financial Accounting Standards Board ("FASB") amended the Liabilities topic of the Accounting Standards Codification to address obligations resulting from joint and several liability arrangements. The guidance addresses recognition of financial commitments arising from joint and several liability arrangements. Specifically, the amendments require recognition of financial commitments arising from loans, contracts, and legal rulings if the Bank can be held liable for the entire claim. The amendments were effective for the Bank for reporting periods ending after December 15, 2014. The Bank does not expect these amendments to have a material effect on its consolidated financial statements.

In January 2014, the FASB amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Bank for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Bank will apply the amendments prospectively. The Bank does not expect these amendments to have a material effect on its consolidated financial statements.

NOTE 2 - BUSINESS COMBINATIONS

On August 1, 2014, the Bank acquired substantially all assets and assumed substantially all liabilities of the commercial leasing operations of Dave McBride Leasing, LLC ("DML"). The acquisition was a significant addition to the Bank's existing commercial leasing line of business, which had been concentrated geographically in North Carolina. The following table presents the consideration paid by the Bank and the assets acquired and liabilities assumed as of August 1, 2014:

	As Recorded by DML	Fair Value and Other Merger Related Adjustments	As Recorded by the Bank
Consideration paid:			
Cancellation of the Bank's loan to DML			**$ 1,766,810**
Cash			**733,440**
Installments due seller			**282,347**
Total consideration			**2,782,597**
Assets:			
Leases receivable (net of unearned income)	**$ 5,753,507**	**$ 371,782**	**6,125,289**
Other assets	**24,062**	**110,565**	**134,627**
Total assets acquired	**5,777,569**	**482,347**	**6,259,916**
Liabilities:			
Third-party bank notes payable	**3,477,319**	**-**	**3,477,319**
Carolina Alliance notes payable	**1,766,810**	**(1,766,810)**	**-**
Total liabilities assumed	**5,244,129**	**(1,766,810)**	**3,477,319**
Net identifiable assets acquired over liabilities assumed	**$ 533,440**	**$ 2,249,157**	**$ 2,782,597**

Since the net assets acquired represent less than one percent of total assets, the acquisition did not have a material effect on revenue or net income in 2014 or on a proforma basis if the transaction had been consummated on January 1, 2013.

On April 5, 2014, the Bank completed its merger with Forest Commercial Bank, a North Carolina state-chartered bank with its principal office in Asheville, North Carolina ("Forest Commercial"). Under terms of the Agreement and Plan of Merger (the "Merger Agreement") dated August 7, 2013, each outstanding share of the common stock of Forest Commercial was exchanged for 0.755 shares of Carolina Alliance common stock, and Forest Commercial merged with and into the Bank. Merger consideration consisted of 1,622,746 shares of common stock, cash aggregating to $205,856 for payments to dissenting shareholders, and cash paid in lieu of fractional shares. The shares issued and the cash paid were based on a value of $8.35 per share, which was the volume weighted average trading price of a share of Carolina Alliance common stock on the OTCBB, as reported by Bloomberg, for the 30 days prior to the closing date. The total value of consideration to Forest Commercial shareholders was $13,755,785.

Forest Commercial operated two full-service offices located in Asheville and Hendersonville, North Carolina and a loan production office located in Charlotte, North Carolina. The merger with Forest Commercial was undertaken in the execution of the Bank's business plan which in part sought a merger partner for the acceleration of growth and geographic diversification.

NOTE 2 - BUSINESS COMBINATIONS (Contiued)

The following table presents the consideration paid by the Bank in the acquisition of Forest Commercial and the assets acquired and liabilities assumed as of April 5, 2014:

	As Recorded by Forest Commercial	Fair Value and Other Merger Related Adjustments	As Recorded by the Bank
Consideration paid:			
Common shares issued (1,622,746 shares)			**$ 13,540,796**
Cash			**214,989**
Total consideration			**13,755,785**
Assets:			
Cash and cash equivalents	**$ 5,252,375**	**$ -**	**5,252,375**
Investment securities, available for sale	**20,389,455**	**-**	**20,389,455**
Other investments	**1,167,650**	**-**	**1,167,650**
Loans and finance leases, net	**124,107,107**	**(2,357,214)**	**121,749,893**
Property and equipment, net	**3,868,071**	**-**	**3,868,071**
Accrued interest	**345,359**	**-**	**345,359**
Core deposit intangibles	**-**	**1,125,940**	**1,125,940**
Other assets	**1,568,765**	**721,701**	**2,290,466**
Total assets acquired	**156,698,782**	**(509,573)**	**156,189,209**
Liabilities:			
Deposits	**128,593,780**	**418,196**	**129,011,976**
Other borrowings	**9,144,998**	**-**	**9,144,998**
Other liabilities	**458,874**	**-**	**458,874**
Total liabilities assumed	**138,197,652**	**418,196**	**138,615,848**
Net identifiable assets acquired over liabilities assumed	**$ 18, 501,130**	**$ (927,769)**	**$ 17,573,361**
Bargain purchase gain			**$ 3,817,576**

Fair value and other merger related adjustments include decreases in the historical cost of loans and leases for current market interest rates in excess of contractual rates in the amount of $2,231,519 and net adjustment for potential loan and lease losses in excess of the recorded allowance for loan and lease losses in the amount of $125,695. An intangible asset in the amount of $1,125,940 for the fair value of long-term deposit relationships was recorded and an increase in the stated value of certificates of deposits in the amount of $418,196 was recorded to reflect contractual rates in excess of current market interest rates. An increase of $721,701 in Forest Commercial's deferred tax asset was recorded to reflect the tax effect of these adjustments.

The following table discloses certain pro forma information reflecting the impact of the merger with Forest Commercial during the period April 4, 2014 through December 31, 2014 as well for the years ended December 31, 2014 and 2013 as if the merger had occurred January 1, 2013.

NOTE 2 - BUSINESS COMBINATIONS (Contiued)

These results combine the historical results of Forest Commercial in the Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other merger-related activity, they are not indicative of what would have occurred had the merger taken place on January 1, 2013.

	Inception to December 31, 2014	Year Ended December 31, 2014	Year Ended December 31, 2013
Net interest income plus other income	**$ 13,113,363**	**$ 15,009,101**	**$ 15,787,079**
Net income	**1,805,883**	**1,767,873**	**1,892,156**
Acquisition costs	**401,697**	**493,412**	**747,760**

NOTE 3 - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2014 and 2013 are as follows:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency and sponsored enterprises	**$ 14,784,022**	**$ 101,125**	**$ (166,937)**	**$ 14,718,210**
Agency mortgage-backed securities	**20,493,045**	**463,238**	**(13,827)**	**20,942,456**
Agency collateralized mortgage obligations	**13,228,670**	**149,958**	**(86,843)**	**13,291,785**
Corporate securities	**1,000,630**	**-**	**(220)**	**1,000,410**
Municipal securities	**10,709,882**	**120,099**	**(6,268)**	**10,823,713**
Total available for sale	**$ 60,216,249**	**$ 834,420**	**$ (274,095)**	**$60,776,574**

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency and sponsored enterprises	$ 11,186,620	$ 6,111	$ (597,635)	$ 10,595,096
Agency mortgage-backed securities	18,267,967	398,711	(33,143)	18,633,535
Agency collateralized mortgage obligations	6,335,751	49,686	(99,815)	6,285,622
Municipal securities	9,013,883	72,550	(53,051)	9,033,382
Total available for sale	$ 44,804,221	$ 527,058	$ (783,644)	$ 44,547,635

In the year ended December 31, 2014, there was one sale of an investment security available for sale at a gain; there were two sales at a loss. The gross proceeds and gross gains realized are reflected in the Consolidated Statements of Cash Flows. In the year ended December 31, 2013, there were five sales of investment securities available for sale at a gain; there were no sales at a loss. The gross proceeds and gross gains realized are reflected in the Consolidated Statements of Cash Flows.

NOTE 3 - INVESTMENT SECURITIES (Continued)

For investment securities which had been in an unrealized loss position for less than 12 months, the number of securities, the fair value, and the gross unrealized losses for each investment security category at December 31, 2014 and 2013 are as follows.

	2014			2013		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
U.S. government agency and sponsored enterprises	**3**	**$ 926,225**	**$ (2,110)**	23	$ 9,317,014	$ (533,470)
Agency mortgage-backed securities	**9**	**1,170,212**	**(11,915)**	10	4,896,276	(33,143)
Agency collateralized mortgage obligations	**5**	**3,878,733**	**(58,077)**	7	2,934,536	(55,633)
Corporate securities	**1**	**1,000,410**	**(220)**	-	-	-
Municipal securities	**4**	**1,443,452**	**(6,268)**	6	1,737,203	(22,758)
Total temporarily impaired securities	**22**	**$ 8,419,032**	**$ (78,590)**	46	$18,885,029	$ (645,004)

There were twenty-one investment securities which had been in an unrealized loss position for greater than 12 months at December 31, 2014 versus five at December 31, 2013. The number of securities, the fair value, and the gross unrealized losses for each investment security category at December 31, 2014 and 2013 are as follows.

	2014			2013		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
U.S. government agency and sponsored enterprises	**17**	**$ 7,006,099**	**$ (164,827)**	1	$ 652,943	$ (64,165)
Agency mortgage-backed securities	**1**	**316,872**	**(1,912)**	-	-	-
Agency collateralized mortgage obligations	**3**	**1,186,436**	**(28,766)**	2	871,195	(44,182)
Municipal securities	**-**	**-**	**-**	2	503,358	(30,293)
Total temporarily impaired securities	**21**	**$ 8,509,407**	**$ (195,505)**	5	$ 2,027,496	$ (138,640)

Based on its other-than-temporary impairment analysis at December 31, 2014, management concluded that the unrealized losses reflected in the preceding summaries were not other-than-temporarily impaired as of that date. Management believes the decline in value to be solely the result of changes in interest rates and not from deterioration in the securities' quality. The Bank has the intention and ability to hold these securities for a period of time sufficient to allow for their recovery in value or maturity.

NOTE 3 - INVESTMENT SECURITIES (continued)

Investment securities at December 31, 2014 and 2013 were pledged as collateral for the following purposes (at fair value):

	2014	2013
FHLB advances	**$ -**	$ 2,017,327
Customer repurchase agreements	**7,857,903**	10,688,146
Public entity deposits	**9,480,106**	8,383,825
Total	**$ 17,338,009**	$ 21,089,298

Amortized cost and fair value of securities available for sale at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities and collateralized mortgage obligations are shown separately since they are not due at a single maturity date.

	Amortized Cost	Fair Value
Due within one year or less	**$ 3,539,613**	$ 3,542,825
Due after one through five years	**10,569,043**	10,658,362
Due after five through ten years	**12,010,267**	11,937,563
Due after ten years	**375,611**	403,583
No contractual maturity	**33,721,715**	34,234,241
Total investment securities	**$ 60,216,249**	$ 60,776,574

NOTE 4 – LOANS AND FINANCE LEASES

Loans and leases receivable at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Commercial	**$ 50,570,533**	$ 35,646,157
Real estate:		
Commercial	**197,039,075**	115,018,431
Residential	**51,376,996**	26,464,575
Construction	**11,811,205**	1,742,417
Consumer	**4,326,335**	3,857,454
Gross loans	**315,124,144**	182,729,034
Finance leases	**20,031,638**	-
Gross loans and finance leases	**335,155,782**	182,729,034
Allowance for loan and lease losses	**(3,946,405)**	(3,515,034)
Fair value adjustments on acquired loans and leases	**(2,613,584)**	-
Deferred fees and costs, net	**(1,723,059)**	116,714
Net loans and finance leases	**$ 326,872,734**	$ 179,330,714

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

At December 31, 2014, substantially all of the Bank's residential mortgage loans were pledged as collateral for advances from the FHLB under the borrowing facility described in Note 9.

A summary of changes in the allowance for loan and lease losses is as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Balance, beginning of period	**$ 3,515,034**	$ 3,082,443
Provision for loan and lease losses	**1,098,129**	475,000
Loans charged off	**(700,928)**	(205,558)
Loan recoveries	**34,170**	163,149
Balance, end of period	**$ 3,946,405**	$ 3,515,034

The Bank makes loans to individuals and small- to mid-sized businesses for various personal and commercial purposes primarily in the upstate region of South Carolina and western North Carolina. Credit concentrations can exist in relation to individual or groups of borrowers, industry segments, geographic regions and collateral characteristics. Credit risk associated with these concentrations could arise when a significant amount of loans sharing similar characteristics are simultaneously impacted by economic or other conditions which adversely affect their collectability. The Bank regularly monitors its credit concentrations. The Bank's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. The largest component of the loan portfolio is loans secured by real estate mortgages which were comprised of the following at December 31, 2014 (construction loans have been allocated to commercial and residential categories as appropriate):

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

	Amount	% of Real Estate Loans
Commercial real estate :		
Owner-occupied	**$ 94,077,571**	**36.2%**
Other	**110,094,770**	**42.3%**
Total commercial real estate	**204,172,341**	**78.5%**
Residential real estate	**56,054,935**	**21.5%**
Total real estate loans	**$ 260,227,276**	**100.0%**
% of gross loans	**82.6%**	

In addition to monitoring potential concentrations described above, management monitors exposure to credit risk that could arise from potential concentrations of lending products and practices, such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. At December 31, 2014, approximately $9.5 million, or 3.0% of gross loans, were identified as having high loan-to-value ratios. The largest component comprising these loans was commercial real estate loans of approximately $6.0 million which was below the aggregate supervisory loan-to-value limit of 30% of capital for this type of loan by approximately $9.9 million.

The remainder of the balance of high loan-to-value loans, $3.5 million, was also well below supervisory limits. Additionally, there are industry practices that could subject the Bank to increased credit risk should economic conditions change over the course of a loan's life. For example, the Bank makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

Credit quality of individual residential loans and consumer loans is monitored principally through review of delinquency measures and non-accrual levels on a portfolio-level basis. The Bank uses an internal loan grading system to classify and monitor the credit quality of all commercial loans. Loan risk grades are based on a graduated scale representing increasing likelihood of loss. The originating loan officers are responsible for the assignment of risk grades to commercial loans, subject to verification by an approving officer or the Management Loan Committee. In addition, the Credit Policy Officer is responsible for confirming loan grades and, along with the Management Loan Committee, has final authority over loan grading. Loan gradings also are reviewed on a regular basis by an independent third-party loan review firm. Individual loan officers also are responsible for ensuring that loan grades are updated as needed over the life of the loan. Loan grade descriptions and a summary of the grading of the Bank's loan portfolio by segment at December 31, 2014 are as follows:

Grade 1 - Credits in this category are virtually risk-free and are well-collateralized by cash-equivalent instruments. The repayment program is well-defined and achievable. Repayment sources are numerous. No material documentation deficiencies or exceptions exist.

Grade 2 - This grade is reserved for loans secured by readily marketable collateral, or loans within guidelines to borrowers with liquid financial statements. A liquid financial statement is a financial statement with substantial liquid assets relative to debts. These loans have excellent sources of repayment, with no significant identifiable risk of collection, and conform in all respects to Bank policy, guidelines, underwriting standards, and Federal and State regulations (no exceptions of any kind).

Grade 3 - This grade is reserved for the Bank's top quality loans. These loans have excellent sources of repayment, with no significant identifiable risk of collection. Generally, loans assigned this risk grade will demonstrate the following characteristics:

- No exceptions of any kind.
- Documented historical cash flow that meets or exceeds required minimum Bank guidelines, or that can be supplemented with verifiable cash flow from other sources.
- Adequate secondary sources to liquidate the debt.

Grade 4 - This grade is given to acceptable loans. These loans have adequate sources of repayment, with little identifiable risk of collection. Loans assigned this risk grade will demonstrate the following characteristics:

- Limited exceptions - any exceptions that are identified during the underwriting and approval process have been adequately mitigated by other factors.
- Documented historical cash flow that meets or exceeds required minimum Bank guidelines, or that can be supplemented with verifiable cash flow from other sources.
- Adequate secondary sources to liquidate the debt.

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

Grade 5 - This grade is given to acceptable loans that show signs of weakness in either adequate sources of repayment or collateral, but have demonstrated mitigating factors that minimize the risk of delinquency or loss. Loans assigned this grade may demonstrate some or all of the following characteristics:

- Additional exceptions to the Bank's policy requirements, product guidelines, or underwriting standards that present a higher degree of risk to the Bank. Although the combination and/or severity of identified exceptions is greater, all exceptions have been properly mitigated by other factors.
- Unproved, insufficient or marginal primary sources of repayment that appear sufficient to service the debt at this time.
- Marginal or unproven secondary sources to liquidate the debt.

Grade 6 - Watch List or **Special Mention** loans include the following characteristics:

- Loans with underwriting guideline tolerances and/or exceptions and with no mitigating factors.
- Extending loans that are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank's position at some future date.
- Loans where adverse economic conditions that develop subsequent to the loan origination that don't jeopardize liquidation of the debt but do substantially increase the level of risk may also warrant this rating.

Grade 7 - A **substandard** loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Loans consistently not meeting the repayment schedule should be downgraded to substandard. Loans in this category are characterized by deterioration in quality exhibited by any number of well-defined weaknesses requiring corrective action. Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status or extensions and/or renewals.

Grade 8 - Loans classified **Doubtful** have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Grade 9- Loans classified **Loss** are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be effected in the future.

Not Graded- Primarily consists of individual residential or consumer loans not assigned a risk grade, in accordance with the Bank's credit policy. Also, not graded may be commercial loans for which a grade is pending because the loan is under review.

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

The composition of the loan portfolio by segment and grade at December 31, 2014 is as follows:

		Real Estate				
	Commercial	**Commercial**	**Residential**	**Construction**	**Consumer**	**Total**
Grade 1	**$ 3,932,940**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,932,940**
Grade 2	**3,498,054**	**304,802**	**-**	**-**	**-**	**3,802,856**
Grade 3	**10,532,152**	**58,665,480**	**60,294**	**2,804,271**	**-**	**72,062,197**
Grade 4	**26,220,695**	**88,684,682**	**350,686**	**5,881,784**	**-**	**121,137,847**
Grade 5	**5,276,432**	**37,014,079**	**72,620**	**1,267,329**	**386**	**43,630,846**
Grade 6	**288,866**	**3,385,931**	**357,557**	**-**	**9,171**	**4,041,525**
Grade 7	**124,069**	**8,261,583**	**985,314**	**-**	**14,350**	**9,385,316**
Grade 8	**-**	**441,881**	**115,525**	**-**	**-**	**557,406**
Not graded	**697,325**	**280,637**	**49,435,000**	**1,857,821**	**4,302,428**	**56,573,211**
Gross loans	**$50,570,533**	**$197,039,075**	**$ 51,376,996**	**$ 11,811,205**	**$ 4,326,335**	**$315,124,144**

Loan grade descriptions and a summary of the grading of the Bank's loan portfolio by segment at December 31, 2013 are as follows:

Grade 1 **-** High Liquidity; Minimal Risk - Grade is based on highest quality liquid collateral, minimum risk, and excellent ratios.

Grade 2 **-** Strong Liquidity; Low Risk - Borrower has strong financial statements, or loan is secured by marketable securities without impairment to liquidation. Although one measure removed from Grade 1, any unfavorable factor is outweighed by other positive considerations.

Grade 3 **-** Normal Liquidity; Average Risk - Reasonable and satisfactory risk exists in these loans to borrowers with good financial strength. The loan's purpose becomes a more significant factor at this level.

Grade 4 **-** Pass/Watch; Marginal Liquidity; Average Risk - Includes borrowers with generally acceptable credit strength, but with manageable weaknesses or uncertainty evident in one or more factors.

Grade 5 **-** Special Mention/Potential Problem; Uncertain Liquidity; More than Normal Risk - Loans with potential weaknesses that deserve management's close attention are included. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects.

Grade 6 **-** Substandard/Problem Loan; Minimal Liquidity; Abnormal Risk (Unacceptable) - The Bank is inadequately protected by the current sound worth and paying capacity of the borrower or of any pledged collateral. Well-defined weakness or weaknesses that jeopardize the liquidation of the debt is present. The loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Grade 7 **-** Doubtful; Loss Potential; Absence of Liquidity - These loans exhibit all the weaknesses inherent in Grade 6 with the added characteristic that the weaknesses make collection in full highly questionable and improbable.

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

Grade 8 - Loss/Charge-Off - Considered uncollectible; some recovery potential may exist, but the probability of such recovery does not support continued reflection of the loan as an asset.

Not Graded - Primarily consists of individual residential or consumer loans not assigned a risk grade, in accordance with the Bank's credit policy. Also not graded may be commercial loans for which a grade is pending because the loan is under review.

The composition of the loan portfolio by segment and grade at December 31, 2013 is as follows:

		Real Estate				
	Commercial	**Commercial**	**Residential**	**Construction**	**Consumer**	**Total**
Grade 1	$ 813,020	$ -	$ -	$ -	$ -	$ 813,020
Grade 2	1,779,549	-	-	-	-	1,779,549
Grade 3	10,223,584	37,180,323	-	322,865	-	47,726,772
Grade 4	21,766,550	69,265,065	693,758	-	-	91,725,373
Grade 5	524,979	3,690,023	253,600	-	1,000	4,469,602
Grade 6	27,080	4,882,570	322,414	550,953	10,941	5,793,958
Grades 7, 8	-	-	-	-	-	-
Not graded	511,395	450	25,194,803	868,599	3,845,513	30,420,760
Gross loans	$35,646,157	$115,018,431	$26,464,575	$ 1,742,417	$ 3,857,454	$182,729,034

The composition of non-performing assets at December 31, 2014 and 2013 is as follows:

	2014	**2013**
Non-accrual loans:		
Commercial	**$ 29,710**	$ 4,697
Real estate:		
Commercial	**2,229,043**	665,377
Residential	**115,526**	-
Construction	**-**	-
Consumer	**-**	-
Total non-accrual loans	**2,374,279**	670,074
Other real estate owned	**1,684,101**	1,108,731
Non-performing assets	**$ 4,058,380**	$ 1,778,805
Loans past due 90 days or more still accruing interest	**$ -**	$ -

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

The composition of past due loans by portfolio segment at December 31, 2014 is as follows:

	30-59 Days	60-89 Days	Greater than 90 Days and on Nonaccrual	Total Past Due	Current	Total Loans
Commercial	**$ 887**	**$ -**	**$ 29,710**	**$ 30,597**	**$ 50,539,936**	**$ 50,570,533**
Real estate:						
Commercial	**-**	**-**	**2,229,043**	**2,229,043**	**194,810,032**	**197,039,075**
Residential	**673,762**	**-**	**115,525**	**789,287**	**50,587,709**	**51,376,996**
Construction	**-**	**-**	**-**	**-**	**11,811,205**	**11,811,205**
Consumer	**-**	**-**	**-**	**-**	**4,326,335**	**4,326,335**
Gross loans	**$ 674,649**	**$ -**	**$ 2,374,278**	**$ 3,048,927**	**$312,075,217**	**$315,124,144**

The composition of past due loans by portfolio segment at December 31, 2013 is as follows:

	30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans
Commercial	$ -	$ 11,331	$ 4,697	$ 16,028	$ 35,630,129	$ 35,646,157
Real estate:						
Commercial	497,044	453,126	665,377	1,615,547	113,402,884	115,018,431
Residential	107,336	-	-	107,336	26,357,239	26,464,575
Construction	-	-	-	-	1,742,417	1,742,417
Consumer	-	-	-	-	3,857,454	3,857,454
Gross loans	$ 604,380	$ 464,457	$ 670,074	$ 1,738,911	$180,990,123	$182,729,034

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

The following tables summarize information relative to impaired loans by portfolio segment.

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	$ 29,710	$ 30,758	$ -	$ 89,826	$ 6,348
Real estate:					
Commercial	4,542,070	4,633,533	-	5,195,702	253,246
Residential	574,070	587,913	-	778,101	33,012
Construction	-	-	-	-	-
Consumer	13,042	13,042	-	15,476	1,556
	5,158,892	5,265,246	-	6,079,105	294,162
With a related allowance:					
Commercial	-	-	-	-	-
Real estate:					
Commercial	2,754,305	2,754,305	554,000	2,762,579	114,565
Residential	-	-	-	-	-
Construction	-	-	-	-	-
Consumer	-	-	-	-	-
	2,754,305	2,754,305	554,000	2,762,579	114,565
Total impaired loans:					
Commercial	29,710	30,758	-	89,826	6,348
Real estate:					
Commercial	7,296,375	7,387,838	554,000	7,958,281	367,811
Residential	574,070	587,913	-	778,101	33,012
Construction	-	-	-	-	-
Consumer	13,042	13,042	-	15,476	1,556
	$ 7,913,197	$ 8,019,551	$ 554,000	$ 8,841,684	$ 408,727
Troubled debt restructurings included in impaired loans:					
Accruing	$ 5,071,654	$ 5,071,654	$ 554,000	$ 5,125,153	$ 238,607
Non-accrual	1,104,883	1,104,883	-	1,713,153	92,248
	$ 6,176,537	$ 6,176,537	$ 554,000	$ 6,838,306	$ 330,855

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

	December 31, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	$ 312	$ 4,325	$ -	$ 40,202	$ 4,013
Real estate:					
Commercial	2,424,135	2,444,877	-	2,492,134	135,059
Residential	376,409	376,409	-	387,278	9,585
Construction	-	-	-	-	-
Consumer	10,822	10,822	-	11,809	1,063
	2,811,678	2,836,433	-	2,931,423	149,720
With a related allowance:					
Commercial	-	-	-	-	-
Real estate					
Commercial	2,771,657	2,771,657	554,000	2,779,329	115,629
Residential	-	-	-	-	-
Construction	550,953	550,953	189,000	563,293	28,556
Consumer	-	-	-	-	-
	3,322,610	3,322,610	743,000	3,342,622	144,185
Total impaired loans:					
Commercial	312	4,325	-	40,202	4,013
Real estate:					
Commercial	5,195,792	5,216,534	554,000	5,271,463	250,688
Residential	376,409	376,409	-	387,278	9,585
Construction	550,953	550,953	189,000	563,293	28,556
Consumer	10,822	10,822	-	11,809	1,063
	$ 6,134,288	$ 6,159,043	$ 743,000	$ 6,274,045	$ 293,905
Troubled debt restructurings included in impaired loans:					
Accruing	$ 5,015,473	$ 5,015,473	$ 743,000	$ 5,067,627	$ 236,460
Non-accrual	329,141	349,816	-	383,539	16,392
	$ 5,344,614	$ 5,365,289	$ 743,000	$ 5,451,166	$ 252,852

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

At December 31, 2014, the outstanding recorded investment in loans which had been determined in prior years to be impaired under ASC 310-10-35 was $4,682,189, and there was $554,000 in related allowance for loan and lease losses associated with those loans. Following is a summary of loans determined to be TDRs during the years ended December 31, 2014 and 2013:

	2014			2013		
	Number of Loans	Amount		Number of Loans	Amount	
		Pre-Modification	Post-Modification		Pre-Modification	Post-Modification
Commercial	-	$ -	$ -	-	$ -	$ -
Real estate:						
Commercial	6	1,212,482	1,212,482	5	404,096	404,096
Residential	2	275,288	275,288	1	93,491	93,491
Construction	-	-	-	-	-	-
Consumer	1	6,578	6,578	1	10,822	10,822
	9	$ 1,494,348	$ 1,494,348	7	$ 508,409	$ 508,409

Of the loans that were identified as TDRs during the year ended December 31, 2014, all nine involved financial difficulty with renewal terms that did not mitigate the increased potential risk. During the year ended December 31, 2014, no loans that had been previously restructured had payment defaults. During the year ended December 31, 2013, one loan that had been previously restructured defaulted. The recorded investment at the loan's default was $100,000. During the year ended December 31, 2014, there were no loans that had been previously restructured removed from this classification (except by pay-offs). During the year ended December 31, 2013, there were two loans that had been previously restructured removed from this classification. One was paid off by the borrower, and the second was charged off due to a consistently poor payment pattern. The recorded investment at the loan's charge-off was approximately $8,000.

The following tables summarize activity related to the allowance for loan and lease losses by portfolio segment and finance leases for the year ended December 31, 2014:

	Balance Beginning of Year	Provision for Losses	Loan Charge Offs	Loan Recoveries	Balance End of Period
Commercial	$ 469,087	$ 79,826	$ (15,752)	$ 22,461	$ 555,622
Real estate:					
Commercial	1,704,954	677,906	(500,743)	2,760	1,884,877
Residential	338,009	420,854	(184,433)	925	575,355
Construction	857,256	(215,884)	-	-	641,372
Consumer	145,728	49,215	-	8,024	202,967
Finance leases	-	86,212	-	-	86,212
Total	$3,515,034	$1,098,129	$ (700,928)	$ 34,170	$3,946,405

NOTE 4 - LOANS AND FINANCE LEASES (Continued)

The following table summarizes activity related to the allowance for loan and lease losses for the year ended December 31, 2013 by portfolio segment:

	Balance Beginning of Year	Provision for Losses	Loan Charge Offs	Loan Recoveries	Balance End of Year
Commercial	$ 442,399	$ 13,273	$ (11,812)	$ 25,227	$ 469,087
Real estate:					
Commercial	1,214,502	494,263	(130,000)	126,189	1,704,954
Residential	370,126	(11,235)	(29,542)	8,660	338,009
Construction	896,129	(38,873)	-	-	857,256
Consumer	159,287	17,572	(34,204)	3,073	145,728
Total	$3,082,443	$ 475,000	$ (205,558)	$ 163,149	$3,515,034

The following table presents the basis upon which loans in each portfolio segment and finance leases were reviewed for impairment, with the related allowance for loan and lease losses broken out on the same basis, at December 31, 2014 and 2013:

	2014					
	Gross Loan and Leases			Allowance for Loan and Lease Losses		
	Basis of Review			Basis of Review		
	Individual	Collective	Total	Individual	Collective	Total
Commercial	**$ 29,710**	**$ 50,540,823**	**$ 50,570,533**	**$ -**	**$ 555,622**	**$ 555,622**
Real estate:						
Commercial	**7,296,375**	**189,742,700**	**197,039,075**	**554,000**	**1,330,877**	**1,884,877**
Residential	**574,070**	**50,802,926**	**51,376,996**	**-**	**575,355**	**575,355**
Construction	**-**	**11,811,205**	**11,811,205**	**-**	**641,372**	**641,372**
Consumer	**13,042**	**4,313,293**	**4,326,335**	**-**	**202,967**	**202,967**
Finance leases	**-**	**20,031,638**	**20,031,638**	**-**	**86,212**	**86,212**
Total	**$7,913,197**	**$327,242,585**	**$335,155,782**	**$ 554,000**	**$ 3,392,405**	**$3,946,405**

	2013					
	Gross Loans			Allowance for Loan Losses		
	Basis of Review			Basis of Review		
	Individual	Collective	Total	Individual	Collective	Total
Commercial	$ 312	$ 35,645,845	$ 35,646,157	$ -	$ 469,087	$ 469,087
Real estate:						
Commercial	5,195,792	109,822,639	115,018,431	554,000	1,150,954	1,704,954
Residential	376,409	26,088,166	26,464,575	-	338,009	338,009
Construction	550,953	1,191,464	1,742,417	189,000	668,256	857,256
Consumer	10,822	3,846,632	3,857,454	-	145,728	145,728
Total	$6,134,288	$176,594,746	$182,729,034	$ 743,000	$ 2,772,034	$3,515,034

Loans and finance leases totaling approximately $130.0 million were acquired during 2014, and credit related adjustments of approximately $1.1 million were included for these loans at December 31, 2014.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Land	**$ 1,115,352**	$ 1,115,352
Building	**5,356,495**	5,356,495
Furniture and equipment	**3,010,705**	2,199,775
Leasehold improvements	**180,300**	-
	9,662,852	8,671,622
Less accumulated depreciation	**2,497,091**	1,972,428
Property and equipment, net	**$ 7,165,761**	$ 6,699,194

Depreciation expense for the years ended December 31, 2014 and 2013 was $485,722 and $344,128, respectively. During the year ended December 31, 2013, fully depreciated computer equipment with total original book value of $62,494 was retired.

NOTE 6 – LEASED ASSETS

As part of the merger, the Bank absorbed Forest Commercial's leasing division. Leased assets at December 31, 2014 are summarized as follows:

	2014
Equipment	**$ 6,122,539**
Less accumulated depreciation	**2,474,343**
Leased assets, net	**$ 3,648,196**

Depreciation expense on leased assets for the year ended December 31, 2014 was $989,302. The estimated residual at the end of the lease term is $1,118,816 at December 31, 2014. Minimum future lease receipts under these leases are as follows at December 31, 2014:

2015	**$ 1,352,891**
2016	**953,578**
2017	**503,426**
2018	**44,767**
2019	**3,447**
Total	**$ 2,858,109**

NOTE 7 – CORE DEPOSIT INTANGIBLE

The core deposit intangible asset is amortized over the estimated life of the asset. At December 31, 2014, intangible assets consisted of a core deposit premium, net of accumulated amortization, and amounted to approximately $948,000. The amount of core deposit premium recorded as a result of the merger with Forest Commercial was $1,126,000. Amortization expense related to the core deposit premium was approximately $178,000 for the year ended December 31, 2014.

Amortization of the core deposit intangible asset is computed using the 150% declining balance method over an amortization period of seven years. Estimated future amortization expense is as follows at December 31, 2014:

2015	**$ 205,205**
2016	**167,984**
2017	**160,849**
2018	**160,849**
2019	**160,849**
2020	**92,417**
Total	**$ 948,153**

NOTE 8 - DEPOSITS

Deposit accounts at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Non-interest bearing deposits	**$ 57,751,335**	$ 28,602,201
Interest bearing deposits:		
Interest checking	**25,222,359**	18,944,242
Money market	**130,009,839**	95,201,054
Savings	**35,921,385**	3,794,519
Time deposits	**89,486,580**	56,957,811
Total deposits	**$ 338,391,498**	$ 203,499,827

At December 31, 2014 and 2013 there were deposits amounting to approximately $16.8 million and $4.2 million, respectively, obtained from outside the Bank's market area through the internet and deposit brokers. At December 31, 2014, time deposits greater than $250,000 totaled $26,675,212.

At December 31, 2014 the scheduled maturities of time deposits were as follows:

2015	**$ 51,828,220**
2016	**21,770,195**
2017	**11,280,802**
2018	**4,278,443**
2019	**328,920**
Total time deposits	**$ 89,486,580**

NOTE 9 - OTHER BORROWINGS

Repurchase Agreements - All of the Bank's repurchase agreements are with its commercial deposit customers. At December 31, 2014 and 2013, respectively, balances of $5,992,085 and $10,142,253 were outstanding at rates of 0.30% for both period ends.

Federal Funds Lines of Credit - The Bank maintains federal funds lines of credit with correspondent banks to meet short-term liquidity needs. Advances under these agreements are unsecured and are limited to terms ranging from seven to 15 days. These banks have reserved the right to withdraw these lines at their option. At December 31, 2014, the Bank had credit availability of $29.8 million under these lines with no advances outstanding.

FHLB Line of Credit - The Bank has an approved credit line with the FHLB of approximately $41.8 million, subject to the Bank's ability to pledge qualifying collateral. Advances totaled $19.6 million and $1.0 million at December 31, 2014 and 2013, respectively.

The advances are at fixed rates with interest paid monthly and principal paid at maturity. The following table summarizes the FHLB borrowings at December 31, 2014:

Maturity Date	Balance	Interest Rate
January 23, 2015	**$ 1,000,000**	**0.25 %**
April 16, 2015	**2,000,000**	**0.29 %**
April 27, 2015	**3,500,000**	**0.38 %**
July 21, 2015	**1,500,000**	**0.30 %**
December 21, 2015	**6,600,000**	**0.37 %**
October 18, 2016	**2,000,000**	**0.76 %**
May 23, 2017	**1,500,000**	**1.23 %**
May 23, 2018	**1,500,000**	**1.49 %**
	$19,600,000	

Federal Reserve Bank Credit Facility - The Bank is eligible to borrow through the Federal Reserve Bank's ("FRB") "Discount Window" program. Any borrowings under this program must be secured by eligible collateral and are limited to very short terms, typically overnight. The FRB has indicated that though institutions are not required to seek funding elsewhere before requesting credit, they expect that institutions will use the Discount Window as a backup rather than a regular source of funding. The Bank has never used this funding source, but maintains it as a part of its contingency funding plan. The Bank estimates that credit availability under this program was approximately $101.0 million at December 31, 2014.

NOTE 10 - INCOME TAXES

The income tax effects of temporary differences between financial statement carrying values and the tax bases of assets and liabilities, as well as net operating loss carryforwards at December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets:		
Allowance for loan and lease losses	**$ 1,092,602**	$ 948,952
Acquisition accounting adjustments	**1,046,318**	-
Net operating losses	**813,770**	-
Organization and start-up costs	**361,317**	126,094
Other real estate owned	**252,411**	245,716
Non-qualified stock options	**336,290**	169,158
Other	**204,721**	86,107
Unrealized losses on securities available for sale	**-**	104,935
Total deferred tax assets	**4,107,429**	1,680,962
Deferred tax liabilities:		
Leased assets	**1,907,631**	-
Property and equipment	**546,222**	388,661
Loan origination costs	**126,350**	85,389
Unrealized gains on securities available for sale	**229,153**	-
Other	**392,741**	163,447
Total deferred tax liabilities	**3,202,097**	637,497
Net deferred tax asset	**$ 905,332**	$ 1,043,465

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. At December 31, 2014 and 2013, management determined that no valuation allowance was necessary.

The components of the change in the net deferred tax assets are as follows:

	2014
Total change in net deferred tax assets	**$ 138,133**
Less:	
Change in unrealized gains on securities available for sale	**(334,088)**
Initial acquisition accounting deferred tax assets recorded	**1,201,468**
Change in operating deferred tax assets	**$ 1,005,513**

The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions.

The Bank’s federal and state income tax returns are open and subject to examination from the 2011 tax return year and forward. The Bank's federal net operating loss is $2,162,096 as of December 31, 2014 and will expire 2034.

NOTE 10 - INCOME TAXES (Continued)

The income tax expense for the years ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Income taxes currently payable	**$ 89,541**	$ 774,972
Net deferred income tax (benefit) expense	**1,005,513**	14,430
Income tax expense	**$ 1,095,054**	$ 789,402

The income tax expense for the years ended December 31, 2014 and 2013 is reconciled to the amount of income tax computed at the federal statutory rate of 34% on income before income taxes as follows:

	2014	2013
Tax expense at statutory rate	**$ 2,447,984**	$ 636,546
Increase (decrease) in taxes resulting from:		
Bargain purchase gain	**(1,297,976)**	**-**
Non-deductible merger costs	**31,183**	105,956
Stock option compensation	**25,786**	7,166
State income taxes, net of federal benefit	**60,953**	16,080
Tax- exempt interest income	**(50,263)**	(31,911)
Other, net	**(122,613)**	55,565
Income tax expense	**$ 1,095,054**	$ 789,402

NOTE 11 - COMMITMENTS AND CONTINGENCIES

During the years ended December 31, 2014 and 2013, the Bank leased several office facilities and various equipment under operating leases. Lease expense for the years ended December 31, 2014 and 2013 was approximately $256,000 and $17,000, respectively. The amount expensed for related party rents was $177,429.

The Bank entered into a lease agreement for its Asheville office that commenced on August 1, 2010. The term of the lease shall expire ten years after the commencement date and includes a renewal option to extend the term of the lease for two separate and successive five year periods. The lease is in an agreement with a board member (related party) of the Bank.

The Bank also entered into a lease agreement for its Hendersonville office that commenced on October 1, 2011. The term of the lease shall expire five years after the commencement date and includes a renewal option to extend the term of the lease for one separate and successive five year period.

The Bank also entered into a lease agreement for its Charlotte office that commenced on January 1, 2015 for a four-year term.

In addition, the Bank is in its first two-year renewal option period for its Seneca branch, which will expire May 20, 2016. The Bank also leases its Anderson branch office, and the two-year original lease term will expire on September 8, 2015.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

Minimum future rentals under these leases are as follows:

2015	**$ 368,107**
2016	**356,000**
2017	**335,683**
2018	**345,639**
2019	**319,803**
2020 and beyond	**182,638**
Total	**$ 1,907,870**

The Bank has a contract for data processing services with a remaining term of 30 months at December 31, 2014 with an average monthly minimum payment of approximately $44,000.

The Bank has entered into employment agreements with certain senior officers. These agreements include provisions regarding term, compensation, benefits, incentive programs, stock option plans, severance, and non-compete provisions. The agreements have terms ranging from two to three years and annually are extended automatically for successive one-year terms, provided that the Bank or officer may at any time give notice that the term is to be fixed at the term remaining at the last extension. The agreements also may be terminated if the officer's employment is terminated under various provisions of the agreements.

Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Bank.

NOTE 12 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the ordinary course of business, and to meet the financing needs of its customers, the Bank is a party to various financial instruments with off-balance sheet risk. These financial instruments, which include commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The same credit policies used for on-balance sheet instruments are used in making commitments and conditional obligations.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

NOTE 12 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2014, the Bank's commitments to extend additional credit totaled approximately $74.1 million, the majority of which are at variable rates of interest with varying maturities. Included in the Bank's total commitments are standby letters of credit. Letters of credit are commitments issued by the Bank to guarantee the performance of a customer to a third party and totaled approximately $932,000 at December 31, 2014.

NOTE 13 - PREFERRED STOCK

On August 23, 2011, the Bank completed the sale of $5 million of Series A preferred stock to the Secretary of the Treasury under the Small Business Lending Fund ("SBLF"). The fund was established under the Small Business Jobs Act of 2010 that was created to encourage lending to small businesses by providing capital to qualified community banks with assets less than $10 billion.

Under the terms of the stock purchase agreement, the Treasury received 5,000 shares of $1.00 par value, non-cumulative perpetual preferred stock with a liquidation value of $1,000 per share in exchange for $5 million.

The Series A preferred stock qualifies as Tier 1 capital. Beginning with the initial dividend period, which ended September 30, 2011, and for each dividend period since, the Bank's dividend rate was one percent (1%). As of December 31, 2013, under the terms of the related purchase agreement, the dividend rate became fixed at one percent (1%). The Bank paid dividends of $50,000 for both years ended December 31, 2014 and 2013.

Subject to regulatory approval, the Bank is generally permitted to redeem the Series A preferred shares at par plus unpaid dividends.

NOTE 14 - DIVIDENDS

On September 5, 2014, the Bank's board of directors approved a ten percent stock dividend to the Bank's shareholders. The record date was September 22, 2014, and the distribution date was October 7, 2014. Earnings per share and average shares outstanding have been retroactively adjusted to reflect the stock dividend in our Consolidated Statements of Income and certain other share and per share disclosures.

Currently, the Bank has no plans to initiate payment of cash dividends on its common shares. It is anticipated that any future dividends paid by the Bank to common shareholders would be dependent on earnings, capital requirements, and financial condition. Additionally, as a condition of receiving a state banking charter, the Bank agreed to pay no cash dividends until its retained deficit was eliminated, which took place during the second quarter of 2013. This restriction was waived in connection with the Bank's participation in the SBLF program with regard to dividends on the Series A preferred stock.

NOTE 15 - STOCK COMPENSATION

Stock Option Plan - The Bank has three stock option plans (the "Plans") for the benefit of the Bank's officers, employees, and directors. Under terms of the Plans, the Board may grant options to purchase common stock ("options") of the Bank aggregating up to 21% of outstanding shares, which amounted to 957,739 and 580,263 at December 31, 2014 and 2013, respectively.

Options issued under the Plans have an exercise price equal to the stock's fair market value (based on the most recent stock trades) on the grant date. The life of options granted cannot exceed 10 years.

In connection with the Forest Commercial merger, the Bank assumed a total of 284,142 options outstanding under the Forest Commercial Bank 2008 Incentive Stock Option Plan and the Forest Commercial Bank 2008 Nonstatutory Stock Option Plan (the "FCB Plans"). Total options available for grant under the FCB Plans was frozen at the amount of options outstanding as of the merger date and the availability of options under the Carolina Alliance plan was reduced by the amount of option availability under these plans, such that options available for grant under the three plans combined totals 957,739 shares. All options outstanding under the FCB Plans were fully vested when assumed by the Bank and had a weighted average remaining life of 3.5 years. All had an exercise price of $11.04 and a negligible fair value.

The following is a summary of activity in the Plans for the years ended December 31, 2014 and 2013 (adjusted for the 10% stock dividend in 2014):

	2014			**2013**		
	Shares	**Weighted Average Exercise Price**	**Weighted Average Fair Value**	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Fair Value**
Outstanding, beginning of year	**462,000**	**$ 9.22**	**$ 3.66**	433,400	$ 9.24	$ 3.70
FCB options assumed	**284,142**	**11.04**	**-**	-	-	-
Granted	**11,000**	**8.35**	**3.15**	28,600	8.53	3.10
Forfeited	**(8,250)**	**8.64**	**3.54**	-	-	-
Outstanding, end of period	**748,892**	**9.90**	**2.27**	462,000	9.22	3.66
Options exercisable	**677,392**	**10.04**	**2.15**	366,960	9.36	3.73
Non-vested options, end of period	**71,500**	**8.60**	**3.34**	95,040	8.68	3.41
Options vesting during period	**30,140**	**8.76**	**3.47**	26,290	8.81	3.55
Shares available for grant	**208,847**			118,263		

All options outstanding have a 10-year life and substantially all have a five-year vesting period. Stock options outstanding and vested at December 31, 2014 have an average remaining life of 3.7 years. Exercise prices per share of outstanding stock options range from $8.35 to $15.00. At December 31, 2014, 433,950 options had an intrinsic value of approximately $737,000. At December 31, 2013, 340,560 options had an intrinsic value of approximately $100,000.

The Bank utilizes the Black-Scholes valuation model to determine the compensation recognized under the fair value method described in Note 1. This fair value is then amortized on a straight-line basis over the vesting period of the option.

NOTE 15 - STOCK COMPENSATION (Continued)

The following assumptions were utilized in the application of the Black-Scholes model for the years ended December 31, 2014 and December 31, 2013):

Weighted Average Risk-Free Interest Rate - The risk-free interest rate used to value option grants is based on the U.S. Treasury yield curve on the date of grant.

Expected Volatility - As the Bank has a relatively short trading history, the volatility assumption was based on the review of volatility statistics of peer banks.

Dividend Yield - Due to dividend restrictions early in the life of the Bank and the anticipated need for capital to fund growth, management assumes that no dividends will be paid over the expected life of options granted.

Expected Life - The expected life is assumed to be 75% of the contractual life of the option. This is based on a review of average life assumptions used by seasoned community banks that base their average life assumptions on actual historical exercise statistics.

The following table summarizes the weighted average assumptions used by the Black-Scholes option-pricing model stock and other information concerning stock option awards granted by the Bank as of and for the years ended December 31, 2014 and 2013.

	2014	**2013**
Weighted average risk-free interest rate	**2.31%**	2.27%
Expected volatility	**30%**	30%
Expected life (years)	**7.5 years**	7.5 years
Dividend yield	**None**	None
Compensation charged against pretax income	**$108,243**	$ 95,736
Approximate future compensation of options outstanding	**$108,658**	$182,000
Weighted average years remaining to recognize future compensation	**2.1 years**	2.6 years

Director Compensation Program - The Bank has a compensation plan for its 14 independent directors. Monthly fees earned by the directors are determined based on a combination of fixed amounts for board and committee membership, and variable amounts based on the number of meetings attended. The program was effective June 1, 2012, and total fee expense was approximately $143,000 and $152,000 in the years ended December 31, 2014 and 2013, respectively.

Directors may elect payment of fees in the form of cash or in Bank stock. Fees earned and payable in cash are paid quarterly, and fees payable in Bank stock are accrued monthly based on the market price of the stock on the last day of each respective month. The accrued compensation is settled from authorized but unissued shares semi-annually. Stock-settled fees earned and accrued in the year ended December 31, 2014 were $105,859, or 17,067 shares, of which 11,186 shares were issuable. These shares will be issued in the second quarter of 2015. The total of stock-settled fees earned and accrued in the year ended December 31, 2013 was $110,352, or 11,990 shares, of which 6,089 shares were issued in January 2014 (adjusted to reflect the stock dividend issued in October 2014).

NOTE 16 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification also are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. As of December 31, 2014, the most recent notification from the Bank's primary regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's category.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2014 and 2013:

	Actual		For Capital Adequacy Purposes Minimum		To be Well Capitalized Under Prompt Corrective Action Provisions Minimum	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Amounts in $000)			
As of December 31, 2014:						
Total capital (To risk weighted assets)	**$ 54,056**	**15.2%**	**$ 28,365**	**8.0%**	**$ 35,456**	**10.0%**
Tier 1 capital (To risk weighted assets)	**50,085**	**14.1**	**14,182**	**4.0**	**21,274**	**6.0**
Tier 1 capital (To average assets)	**50,085**	**12.0**	**16,709**	**4.0**	**20,887**	**5.0**
As of December 31, 2013:						
Total capital (To risk weighted assets)	$ 33,586	16.9%	$ 15,920	8.0%	$ 19,900	10.0%
Tier 1 capital (To risk weighted assets)	31,086	15.6	7,960	4.0	11,940	6.0
Tier 1 capital (To average assets)	31,086	12.6	9,863	4.0	12,329	5.0

NOTE 17 - RELATED PARTY TRANSACTIONS

Certain directors, executive officers and companies with which they are affiliated (collectively referred to as "insiders") are customers of and have banking transactions with the Bank in the ordinary course of business. Loans to insiders are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms-length transactions. At December 31, 2014 and 2013, respectively, loans to insiders approximated $5.8 million and $10.3 million, and deposits from insiders approximated $9.0 million and $8.0 million. During the year ended December 31, 2014, rents totaling $177,429 were paid to a related party for the lease of our Asheville branch office.

NOTE 18 - EMPLOYEE BENEFIT PLANS

At December 31, 2014, the Bank had two 401(k) plans which covered all eligible employees. For the year ended December 31, 2014, participants could contribute up to $17,500 per year, and the Bank matched contributions equal to 100% of employee contributions up to three percent (3%) and four percent (4%) for the South Carolina plan and the North Carolina plan, respectively, of eligible compensation plus 50% of employee contributions up to the next two percent (2%) of eligible compensation. Contributions to the plan were approximately $190,000 and $111,000 in the years ended December 31, 2014 and 2013, respectively. On January 1, 2015, the two plans merged.

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments include cash and due from banks, federal funds sold, investment securities, other investments, loans, deposit accounts, other borrowings, and accrued interest. The following methods and assumptions were used by the Bank in estimating fair values of financial instruments recorded or disclosed in the financial statements:

Cash and Due from Banks - For these short-term instruments, the carrying amounts approximate their fair values.

Federal Funds Sold and Interest Bearing Bank Balances - The carrying amounts of federal funds sold and interest bearing bank balances approximate their fair value due to their short maturities (daily).

Bank Term Deposits - Fair values for fixed-rate certificates of deposit are estimated utilizing a discounted cash flow calculation that applies current market interest rates of certificates of deposits with similar remaining maturities to the portfolio of certificates of deposits.

Investment Securities - Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The Bank utilizes a third party pricing service to provide valuations on its securities portfolio. Most of these securities are U.S. government agency debt obligations or agency mortgage-backed securities traded in active markets. The third party valuations are determined based on the characteristics of each security (such as maturity, duration, rating, etc.) and in reference to similar or comparable securities. Due to the nature and methodology of these valuations, the Bank considers these fair value measurements as Level 2.

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Other Investments - No ready market exists for the FHLB stock, and it has no quoted market value. However, redemption of the stock historically has been at par value; therefore, it is stated at the Bank's cost basis.

Loans and Finance Leases- For variable rate loans that reprice based on each change in a reference rate (e.g. prime rate), fair values are based on carrying values. Fair values for all other loans and leases are estimated using discounted cash flow analyses, with interest rates currently being offered for loans and leases with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Accrued Interest Receivable and Payable - The carrying amounts for these items approximate their fair values due to the short period to settlement (three months or less).
Deposits - The fair values disclosed for demand deposits are, by definition, equal to their carrying amounts. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated monthly maturities.

Securities Sold Under Agreements to Repurchase - The carrying value of these retail repurchase agreements approximates fair value since these obligations mature daily.

Advances from FHLB of Atlanta - The valuation methodology utilizes a discounted cash flow calculation that applies current offered interest rates for fixed rate advances with similar remaining maturities.

Off-Balance Sheet Instruments - Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The total fair value of such instruments is not material.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could affect these estimates significantly.

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair values of the Bank's financial instruments were as follows at December 31, 2014 and 2013:

	2014		2013	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:				
Cash and due from banks	**$ 6,698,634**	**$ 6,698,634**	$ 5,692,846	$ 5,692,846
Federal funds sold and interest bearing bank balances	**722,691**	**722,691**	855,115	855,115
Bank term deposits	**4,731,000**	**4,713,097**	6,723,000	6,718,197
Investment securities, available for sale	**60,776,574**	**60,776,574**	44,547,635	44,547,635
Other investments	**1,262,500**	**1,262,500**	389,000	389,000
Loans and finance leases, net	**326,872,734**	**328,177,000**	179,330,714	180,724,844
Accrued interest receivable	**1,111,812**	**1,111,812**	705,547	705,547
Financial Liabilities:				
Deposits	**338,391,498**	**330,167,000**	203,499,827	199,902,717
Securities sold under agreements to repurchase	**5,992,085**	**5,992,085**	10,142,253	10,142,253
Advances from FHLB of Atlanta	**19,600,000**	**19,673,000**	1,000,000	1,020,357
Accrued interest payable	**59,050**	**59,050**	44,428	44,428

The Bank reports fair value on a recurring basis for certain financial instruments, most notably available for sale investment securities. The table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

	Total	**Level 1**	**Level 2**	**Level 3**
December 31, 2014:				
Investment securities, available for sale:				
U.S. government agency and sponsored enterprises	**$14,718,210**	**$ -**	**$14,718,210**	**$ -**
Agency mortgage-backed securities	**20,942,456**	**-**	**20,942,456**	**-**
Agency collateralized mortgage obligations	**13,291,785**	**-**	**13,291,785**	**-**
Corporate securities	**1,000,410**	**-**	**1,000,410**	**-**
Municipal securities	**10,823,713**	**-**	**10,823,713**	**-**
Total	**$60,776,574**	**$ -**	**$60,776,574**	**$ -**
December 31, 2013:				
Investment securities, available for sale:				
U.S. government agency and sponsored enterprises	**$10,595,096**	**$ -**	**$10,595,096**	**$ -**
Agency mortgage-backed securities	**18,633,535**	**-**	**18,633,535**	**-**
Agency collateralized mortgage obligations	**6,285,622**	**-**	**6,285,622**	**-**
Municipal securities	**9,033,382**	**-**	**9,033,382**	**-**
Total	**$44,547,635**	**$ -**	**$44,547,635**	**$ -**

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value which was below cost at the end of the period. Assets subject to non-recurring use of fair value measurements include impaired loans and foreclosed assets. Due to the use of both observable and unobservable inputs and the significant amount of judgment required in the determination of fair values, both of these categories of assets are considered to be valued under Level 3 inputs.

The fair value of impaired loans is determined based upon the present value of expected cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral-dependent. The fair value of collateral is determined by obtaining an observable market price or obtaining an appraised value from an independent licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, adjusted for differences in the properties, expected future cash flows, or earnings of the subject property based on current market expectations and other relevant factors. In addition, management may apply selling and other discounts to the underlying collateral value to determine the fair value.

Other real estate owned is valued by use of appraisals and management's judgment as described for valuation of collateral underlying collateral-dependent impaired loans.

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013:

	Total	**Level 1**	**Level 2**	**Level 3**
December 31, 2014:				
Impaired loans	**$ 7,359,197**	**$ -**	**$ -**	**$ 7,359,197**
Other real estate owned	**1,684,101**	**-**	**-**	**1,684,101**
Total	**$ 9,043,298**	**$ -**	**$ -**	**$ 9,043,298**
December 31, 2013:				
Impaired loans	$ 5,391,288	$ -	$ -	$ 5,391,288
Other real estate owned	1,108,731	-	-	1,108,731
Total	$ 6,500,019	$ -	$ -	$ 6,500,019

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value	Valuation Technique	Significant Unobservable Inputs
Impaired loans	**$ 7,359,197**	Appraised Value, Discounted Cash Flows and Market Value of the Underlying Collateral	Discount Factors Applied to Valuations for: Shorter Marketing Period (Liquidation Approach), Sales Commissions, and Selling Costs
Other real estate owned	**1,684,101**	Appraised Value and Estimates from Independent Sources	Discount Factors Applied to Valuations for: Shorter Marketing Period (Liquidation Approach), Sales Commissions, and Selling Costs
Total	**$ 9,043,298**		

NOTE 20 – SUBSEQUENT EVENT

On March 24, 2015, the Bank entered into an Agreement and Plan of Merger (the "PBSC Merger Agreement") with PBSC Financial Corporation ("PBSC"), and PBSC's wholly-owned subsidiary, Pinnacle Bank of South Carolina, a South Carolina state-chartered bank with its principal office in Greenville, South Carolina ("Pinnacle Bank"). Pursuant to the PBSC Merger Agreement, PBSC and Pinnacle Bank will merge with and into the Bank. Under terms of the PBSC Merger Agreement, for each PBSC common share held, shareholders of PBSC will have the option to receive either $12.00 or 1.0909 shares of the Bank's common stock. The stock portion of the consideration is subject to adjustment depending upon the average price of CAB common stock prior to the closing of the merger. Cash will be paid in lieu of fractional shares. After the merger, Carolina Alliance's existing shareholders will own approximately 74% of the total shares outstanding, on a fully diluted basis, and PBSC's shareholders will own approximately 26% of Carolina Alliance's outstanding shares on a fully diluted basis.

At December 31, 2014, Pinnacle Bank had total assets of $154.2 million, gross loans of $122.9 million, deposits of $123.0 million, and shareholders' equity of $20.0 million. Also, as of December 31, 2014, Pinnacle Bank had a total risk-based capital ratio of 17.06%, a Tier 1 risk-based capital ratio of 15.81%, and a leverage ratio of 13.04%; Pinnacle Bank was considered "well-capitalized" for regulatory capital purposes.

NOTE 20 – SUBSEQUENT EVENT (Continued)

The merger is subject to the approval of the FDIC, the Federal Reserve, and the South Carolina Board of Financial Institutions. The merger also is subject to the approval of the holders of two-thirds of the outstanding shares of the Bank's common stock and the holders of a majority of the outstanding shares of common stock of each PBSC and Pinnacle Bank. Assuming all required regulatory and shareholder approvals are received, the transaction is expected to close in the fourth quarter of 2015.

If either party terminates the merger agreement by reason of the other party's material breach of its representations, warranties and/or covenants in the merger agreement, the parties agree that the party in breach shall pay $300,000 as liquidated damages to the non-breaching party. If the merger is not consummated under certain other specific circumstances, PBSC and Pinnacle Bank collectively have agreed to pay Carolina Alliance a termination fee of $1,000,000.

Appendix F

PBSC Financial Financial Information

Appendix F

PBSC Financial Financial Information

PBSC FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2014

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MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
PBSC Financial Corporation
Greenville, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **PBSC Financial Corporation and subsidiary**, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PBSC Financial Corporation and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Atlanta, Georgia
March 17, 2015

PBSC FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

Assets	2014	2013
Cash and due from banks	$ 4,024,704	$ 3,736,506
Interest-bearing deposits in banks	6,139,228	7,019,330
Securities available for sale	14,899,663	16,875,159
Restricted equity securities, at cost	492,100	552,600
Loans held for sale	878,750	297,000
Loans, net of deferred fees	122,938,712	111,806,508
Less allowance for loan losses	1,882,226	1,987,774
Loans, net	121,056,486	109,818,734
Premises and equipment	1,352,988	1,379,947
Bank owned life insurance	3,551,917	3,454,638
Other real estate owned	581,926	442,278
Other assets	1,263,355	1,151,378
Total assets	$ 154,241,117	$ 144,727,570
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 26,202,255	$ 19,669,934
Interest-bearing	96,649,676	96,524,664
Total deposits	122,851,931	116,194,598
Repurchase agreements	1,958,324	1,301,252
Other borrowings	8,040,000	6,750,000
Other liabilities	1,195,343	1,153,811
Total liabilities	134,045,598	125,399,661
Commitments and contingencies		
Stockholders' equity		
Common stock, par value $1.00; 20,000,000 shares authorized, 1,851,868 and 1,845,200 issued and outstanding, respectively	1,851,868	1,845,200
Capital surplus	16,898,624	16,838,612
Retained earnings	1,121,821	462,927
Accumulated other comprehensive income	323,206	181,170
Total stockholders' equity	20,195,519	19,327,909
Total liabilities and stockholders' equity	$ 154,241,117	$ 144,727,570

See Notes to Consolidated Financial Statements.

PBSC FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Interest income		
Loans, including fees	$ 5,697,607	$ 5,393,003
Securities:		
Taxable	324,628	365,369
Nontaxable	97,937	89,205
Interest-bearing deposits in banks	20,404	44,004
Total interest income	6,140,576	5,891,581
Interest expense		
Deposits	331,481	354,196
Other borrowings and repurchase agreements	40,817	46,757
Total interest expense	372,298	400,953
Net interest income	5,768,278	5,490,628
Provision for loan losses	200,000	220,000
Net interest income after provision for loan losses	5,568,278	5,270,628
Other income		
Service charges on deposit accounts	193,737	190,717
Mortgage origination income	714,237	833,576
Net loss on sale of securities available for sale	-	(21,376)
Income on bank owned life insurance	97,290	103,380
Other service charges and fees	249,646	209,920
Other operating income	15,567	11,360
Total other income	1,270,477	1,327,577
Other expenses		
Salaries and employee benefits	3,030,354	3,044,632
Occupancy and equipment expenses	439,859	420,817
Other than temporary impairment charge	-	11,528
Net loss on writedowns and sales of other real estate owned	32,817	223,026
Other operating expenses	1,812,693	1,664,191
Total other expenses	5,315,723	5,364,194
Net income before income taxes	1,523,032	1,234,011
Income tax expense	69,500	93,000
Net income	$ 1,453,532	$ 1,141,011
Basic earnings per share	$ 0.79	$ 0.62
Diluted earnings per share	$ 0.79	$ 0.62
Weighted-average shares outstanding	1,845,748	1,845,200

See Notes to Consolidated Financial Statements.

PBSC FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Net income	$ 1,453,532	$ 1,141,011
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale arising during period	142,036	(409,973)
Reclassification adjustment for losses on sale of securities available for sale realized in net income	-	21,376
Other comprehensive income (loss)	142,036	(388,597)
Comprehensive income	$ 1,595,568	$ 752,414

See Notes to Consolidated Financial Statements.

PBSC FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Par Value	Surplus	Earnings	Income	Equity
Balance, December 31, 2012	1,845,200	$ 1,845,200	$ 16,838,612	$ 78,449	$ 569,767	$ 19,332,028
Net income	-	-	-	1,141,011	-	1,141,011
Cash dividends declared, $0.41 per share	-	-	-	(756,533)	-	(756,533)
Other comprehensive loss	-	-	-	-	(388,597)	(388,597)
Balance, December 31, 2013	1,845,200	1,845,200	16,838,612	462,927	181,170	19,327,909
Net income	-	-	-	1,453,532	-	1,453,532
Exercise of stock options	6,668	6,668	60,012	-	-	66,680
Cash dividends declared, $0.43 per share	-	-	-	(794,638)	-	(794,638)
Other comprehensive income	-	-	-	-	142,036	142,036
Balance, December 31, 2014	1,851,868	$ 1,851,868	$ 16,898,624	$ 1,121,821	$ 323,206	$ 20,195,519

See Notes to Consolidated Financial Statements.

PBSC FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING ACTIVITIES		
Net income	$ 1,453,532	$ 1,141,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities	225,018	280,083
Depreciation and amortization	122,590	106,279
Provision for loan losses	200,000	220,000
Loss on sale of securities	-	21,376
Other than temporary impairment charge	-	11,528
Income on bank owned life insurance	(97,290)	(103,381)
Net losses on sale of other real estate owned	-	19,026
Writedowns of other real estate owned	32,817	204,000
Net (increase) decrease in loans held for sale	(581,750)	1,267,840
(Increase) decrease in interest receivable	(13,719)	100,819
Decrease in interest payable	(8,580)	(37,487)
Increase in accounts payable	33,611	20,518
Net other operating activities	(99,069)	221,049
Net cash provided by operating activities	1,267,160	3,472,661
INVESTING ACTIVITIES		
Net decrease in interest bearing deposits in banks	880,102	9,850,715
Purchases of securities available for sale	-	(3,824,265)
Proceeds from sales of securities available for sale	-	521,376
Proceeds from prepayments, calls and maturities of securities available for sale	1,892,514	3,738,332
Redemption (purchase) of restricted equity securities	60,500	(112,800)
Net increase in loans	(11,766,919)	(6,868,933)
Purchase of premises and equipment	(78,307)	(81,181)
Purchase of software	-	(21,430)
Proceeds from the sale of other real estate owned	156,702	618,845
Net cash provided by (used in) investing activities	(8,855,408)	3,820,659

See Notes to Consolidated Financial Statements.

PBSC FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	6,657,332	(2,912,755)
Net increase (decrease) in repurchase agreements	657,072	(6,191,131)
Net increase in other borrowings	1,290,000	2,500,000
Proceeds from exercise of stock options	66,680	-
Cash dividends paid	(794,638)	(756,533)
Net cash provided by (used in) financing activities	7,876,446	(7,360,419)
Net increase (decrease) in cash and due from banks	288,198	(67,099)
Cash and due from banks at beginning of year	3,736,506	3,803,605
Cash and due from banks at end of year	$ 4,024,704	$ 3,736,506
SUPPLEMENTAL DISCLOSURE		
Cash paid for:		
Interest	$ 380,878	$ 438,440
Taxes	$ 53,200	$ 51,600
NONCASH TRANSACTIONS		
Other real estate owned acquired in settlement of loans	$ 329,167	$ 186,362

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

PBSC Financial Corporation (the "Company") is a one-bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Pinnacle Bank of South Carolina (the "Bank"). The Bank is a state-chartered bank located in Greenville, Greenville County, South Carolina.

The Bank provides a full range of banking services to individual and corporate customers in their primary market area of Greenville and surrounding counties.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of other real estate owned, other-than-temporary impairment of securities, and the fair value of financial instruments.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 17, 2015, the date these consolidated financial statements were available to be issued and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Cash, Due From Banks and Cash Flows

For purposes of reporting consolidated cash flows, cash and due from banks include cash on hand, cash items in process of collection, and amounts due from banks. Cash flows from loans, federal funds sold, loans held for sale, interest-bearing deposits in banks, repurchase agreements, other borrowings, and deposits are reported net.

The Company is required to maintain average balances in cash or with the Federal Reserve Bank. The total of those reserve balances was approximately $95,000 and $148,000 at December 31, 2014 and 2013, respectively. In addition, at December 31, 2014 and 2013, $360,000 of interest-bearing deposits in banks were pledged to third parties.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

Securities are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income. Restricted equity securities without a readily determinable fair value are recorded at cost. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporary impaired unless a credit loss has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Restricted Equity Securities

The Company is required to maintain an investment in capital stock of the Federal Home Loan Bank. Based on redemption provisions of this entity, the stock has no quoted market value and is carried at cost. At its discretion, this entity may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in this stock.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. The majority of loans held for sale are initially funded by the Company with a commitment to purchase by an independent investor. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party commitments.

Mortgage origination income represents fees and net premiums and discounts paid by the investors and is recognized at the sale date.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less deferred fees and costs on originated loans and the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs of consumer loans, are recognized at the time the loan is placed on the books. Significant loan origination fees for all other loans are deferred and recognized as an adjustment of the yield over the life of the loan using a method which approximates a level yield.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans will be placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income, unless management believes that the accrual of interest is recoverable through liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash-basis or cost-recovery method, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries are credited to the allowance.

Charge-offs on commercial and real estate loans are recorded when available information confirms the loan is not fully collectible and the loss is reasonably quantifiable. Consumer loans are subject to mandatory charge-off at a specified delinquency date consistent with regulatory guidelines.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower’s ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific, general, and unallocated components. The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows; (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The Company's homogeneous loan pools include seven categories of loans within the primary loan segments of real estate loans as well as commercial and consumer. The general allocations to these loan pools are based on the Company's average historical loss ratios, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) level and trends in past due loans; (2) level and trends in charge-offs and recoveries; (3) trends in volume and terms of loans; (4) effects of changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices; (5) experience, ability and depth of lending management and staff; (6) national and local economic trends and conditions; (7) industry conditions; and (8) effects of changes in credit concentrations. The total allowance established for each homogeneous loan pool represents the sum of the historical loss ratio and qualitative risk factors times the total dollar amount of the loans in the pool. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. There have been no significant changes in the Company's allowance for loan loss methodology for the years ended December 31, 2014 and 2013.

Troubled Debt Restructurings

The Company designates loan modifications as troubled debt restructurings ("TDRs") when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the terms of the leases, if shorter. Maintenance and repairs are expensed as occurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned

Other real estate owned acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent write-downs to the value are expensed.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements, which are secured borrowings, generally mature within one to four days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis.

Income Taxes

The Company, with the consent of its stockholders, has elected to be taxed under sections of federal income tax law, which provides that, in lieu of corporate income taxes, the stockholders separately account for their pro rata share of the Company's items of income, deductions, losses, and credits. As a result of this election, no federal income taxes have been recognized in the accompanying consolidated financial statements. The state of South Carolina imposes a tax on the Bank's modified federal taxable income. The resulting expense has been recorded in the consolidated statements of income. As of December 31, 2014 and 2013, the Company's tax basis exceeded its net assets by approximately $2,517,000 and $2,530,000, respectively.

The Company has adopted the guidance related to accounting for uncertainty in income taxes. The Company will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The federal income tax returns of the Company for 2011, 2012, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Company's evaluation on December 31, 2014 revealed no uncertain tax positions that would have a material impact on the financial statements. The Company does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements. The federal income tax returns of the Company since 2011 are subject to examination by the IRS, generally for three years after they were filed.

Stock Compensation Plans

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants.

Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares of common stock outstanding and dilutive potential common shares. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

Derivative Instruments

In accordance with FASB ASC Topic 815, *Derivatives and Hedging*, all derivative instruments are recorded on the consolidated balance sheet at their respective fair values.

The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. If the derivative instrument is not designated as part of a hedging relationship, the gain or loss on the derivative instrument is recognized in earnings in the period of change. None of the derivatives utilized by the Company have been designated as a hedge.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 2. SECURITIES

The amortized cost and fair value of securities with gross unrealized gains and losses are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014:				
State and municipal securities	$ 4,696,349	$ 180,455	$ (1,407)	$ 4,875,397
Mortgage-backed securities:				
GSE residential	4,585,735	20,353	(59,742)	4,546,346
Small Business Administration	2,527,437	38,479	(1,233)	2,564,683
Private-label residential	1,249,688	75,074	-	1,324,762
Corporate bonds	1,517,248	71,227	-	1,588,475
	$ 14,576,457	$ 385,588	$ (62,382)	$ 14,899,663
December 31, 2013:				
U.S. Government-sponsored enterprises (GSEs)	$ 507,722	$ 3,278	$ -	$ 511,000
State and municipal securities	4,764,937	110,931	(45,651)	4,830,217
Mortgage-backed securities:				
GSE residential	4,960,362	2,926	(108,627)	4,854,661
Small Business Administration	3,083,081	33,344	(4,038)	3,112,387
Private-label residential	1,844,581	79,509	(716)	1,923,374
Corporate bonds	1,533,306	110,214	-	1,643,520
	$ 16,693,989	$ 340,202	$ (159,032)	$ 16,875,159

NOTE 2. SECURITIES (Continued)

The Company pledges assets to collateralize repurchase agreements and other secured financings such as other short-term borrowings. The carrying value of available for sale securities owned by the Company that have been pledged to counterparties where those counterparties do not have the right to sell or repledge at December 31 are as follows:

	2014	2013
Repurchase agreements	$ 3,027,040	$ 3,323,779

The amortized cost and fair value of securities as of December 31, 2014 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year	$ 1,015,283	$ 1,037,361
Due from one to five years	2,188,641	2,269,499
Due from five to ten years	2,258,016	2,364,773
Due after ten years	751,657	792,239
Mortgage-backed securities	8,362,860	8,435,791
	$ 14,576,457	$ 14,899,663

Gains and losses on sales of securities available for sale consist of the following:

	Years Ended December 31,	
	2014	2013
Gross gains	$ -	$ -
Gross losses	-	(21,376)
Net realized losses	$ -	$ (21,376)

NOTE 2. SECURITIES (Continued)

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013, respectively.

	Less Than Twelve Months		Over Twelve Months		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
December 31, 2014:					
State and municipal securities	$ 333,276	$ (1,407)	$ -	$ -	$ (1,407)
Mortgage-backed securities:					
GSE residential	-	-	3,545,161	(59,742)	(59,742)
Small Business Administration	826,126	(1,233)	-	-	(1,233)
Total temporary impaired securities	$ 1,159,402	$ (2,640)	$ 3,545,161	$ (59,742)	$ (62,382)
December 31, 2013:					
State and municipal securities	$ 2,257,793	$ (45,651)	$ -	$ -	$ (45,651)
Mortgage-backed securities:					
GSE residential	3,393,756	(66,600)	1,124,216	(42,027)	(108,627)
Small Business Administration	1,089,112	(4,038)	-	-	(4,038)
Private-label residential	204,494	(716)	-	-	(716)
Total temporary impaired securities	$ 6,945,155	$ (117,005)	$ 1,124,216	$ (42,027)	$ (159,032)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation.

At December 31, 2014, 5 of 30 debt securities have unrealized losses with aggregate depreciation of 1.31% from the Company's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports.

State and municipal securities. The unrealized loss on the investment in one state and municipal security was caused by interest rate increases. Because the Company does not intend to sell the investment and it is more likely than not that the Company will not be required to sell the investment before recovery of their amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2014.

GSE residential mortgage-backed securities. The unrealized losses associated with three GSE mortgage-backed securities were caused by interest rate increases. The contractual cash flow of these securities is guaranteed by an agency of the U.S. Government. Accordingly, it is expected that these securities would not be settled at a price less than the amortized cost bases of the Company's securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2014.

NOTE 2. SECURITIES (Continued)

Small Business Administration mortgage-backed securities. The unrealized loss associated with one Small Business Administration mortgaged-backed security was caused by interest rate increases. The security is guaranteed by the U.S. Government. Accordingly, it is expected that the security would not be settled at a price less than the amortized cost bases of the Company's security. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of their amortized cost basis, which may be maturity, the Company does not consider this security to be other-than-temporarily impaired at December 31, 2014.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

For securities where the security is not a beneficial interest in securitized financial assets, the Company uses a debt and equity securities impairment model.

Management conducts periodic reviews to identify and evaluate each security to determine whether an other-than-temporary impairment has occurred using economic models. While all securities are considered, the securities primarily impacted by other-than-temporary impairment testing are private-label mortgage-backed securities. For each private-label mortgage-backed security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred.

During the year ended December 31, 2013, the Company recorded an other-than-temporary impairment charge of $11,528, on private-label residential mortgage backed securities. The value of these securities declined after experiencing losses in excess of original projections and subsequent ratings downgrades. None of the impaired securities were sold during 2014. The impaired security has a remaining cost basis of $133,643 as of December 31, 2014. There were no other-than-temporary impairment charges for the year ended December 31, 2014.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loans, excluding loans held for sale, is summarized as follows:

	December 31,	
	2014	2013
Real estate:		
Construction and land development	$ 14,934,636	$ 14,164,671
1-4 family residential	27,948,163	24,511,927
Commercial - owner-occupied	28,650,192	29,068,203
Commercial - other	34,922,439	32,209,826
Commercial	13,226,924	7,898,002
Consumer	3,309,487	4,027,777
	122,991,841	111,880,406
Deferred loan fees	(53,129)	(73,898)
Allowance for loan losses	(1,882,226)	(1,987,774)
Loans, net	$ 121,056,486	$ 109,818,734

During 2012, the Company purchased a pool of federal student loans from a third party at a purchase price (ninety-eight percent) below their current book value, resulting in a discount of $100,363. The contractual balance of these loans on their purchase date was $5,037,527. The federal government guarantees ninety-eight percent of all principal and interest due on these loans. The outstanding balance of these loans as of December 31, 2014 and 2013 was $2,241,116 and $2,838,073, respectively, with a related discount of $76,461. These loans are classified as consumer loans in the above table.

The loan portfolio was disaggregated into portfolio segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. The three loan portfolio segments are real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute and the Company's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land development, 1-4 family residential, commercial owner-occupied, and other commercial. The commercial loans and consumer segments have not been further disaggregated into classes.

The following describe risk characteristics relevant to each of the portfolio segments:

Real Estate - As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and land development loans are repaid through cash flow related to the operations, sale or refinance of the underlying property, or the cash flow of the borrower/guarantor. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- 1-4 family residential loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. This portfolio segment includes 1-4 family mortgages secured by first liens, junior liens, and open-end lines such as home equity lines of credit.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

- Owner-occupied commercial loans are repaid by cash flow generated from the business operation. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings.

- Other commercial loans include nonowner-occupied commercial real estate loans, multifamily residential loans, and other loans secured by income producing properties. Real estate loans for income-producing properties such as office and industrial buildings, and retail shopping centers are repaid from rental income derived from the properties.

Commercial - The commercial loan portfolio segment includes non-real estate commercial and industrial loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, expansion projects and other legitimate business purposes. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

Consumer - The consumer portfolio segment includes consumer loans, overdrafts, other revolving credit loans and guaranteed student loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

The executive officers of the Company and other loan officers as a whole are involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This process also assists in the prompt identification of problem credits. The Company has implemented many processes and procedures to manage the portfolios and reduce risk.

The Company's credit risk management process includes defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by loan policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on initial underwriting and managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting and, on an ongoing basis, monitoring the credit of the portfolios, including a complete review of all commercial relationships over $250,000 on an annual basis or more frequently as needed. To insure problem credits are identified on a timely basis, two independent loan reviews are performed annually to assess the larger adversely rated credits for proper risk rating and accrual status to ensure such individual credits are properly graded by management. All loans are graded on an eight-point scale and significant loans are reviewed periodically for compliance with the defined criteria for each grade level.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports by past due status, grade and accrual status are reviewed by executive management, Loan Committee and the Board of Directors.

A description of the general characteristics of the risk grades used by the Company is as follows:

- Pass - includes obligations with low or average risk qualities where the probability of default is considered low.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

- Special Mention - includes obligations that are currently protected but have a high potential to become weak credits. These loans have weaknesses which may, if not checked or corrected, threaten the integrity of the assets or inadequately protect the Company's credit position at some future date.

- Substandard - includes obligations that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans in this category would include, but not be limited to, borrowers with a weakened financial condition or poor performance history, past due loan history, restructured loans to reduce payments, insufficiency or lack of marketability of collateral, and/or loans with severe documentation deficiencies. This category would also include loans to companies which are experiencing unfavorable trends in their financial results to the point where the agreed upon repayment is in jeopardy and the Company may have to look to a questionable secondary source of repayment.

- Doubtful - includes obligations that have the weaknesses inherent in assets classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis or currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage and strengthening of the asset, this classification as an estimated loss is deferred until its more exact status may be determined.

The following tables summarize the risk category of the Company's loan portfolio by class based on the most recent analysis performed as of December 31, 2014 and 2013:

December 31, 2014:	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Construction and land development	$ 13,292,453	$ -	$ 1,642,183	$ -	$ 14,934,636
1-4 family residential	26,020,925	-	1,927,238	-	27,948,163
Commercial - owner-occupied	27,363,658	-	1,286,534	-	28,650,192
Commercial - other	33,969,780	-	952,659	-	34,922,439
Commercial	13,179,055	39,310	8,559	-	13,226,924
Consumer	3,299,325	-	10,162	-	3,309,487
Total	$117,125,196	$ 39,310	$ 5,827,335	$ -	$ 122,991,841

December 31, 2013:					
Real estate:					
Construction and land development	$ 12,799,843	$ 1,223,805	$ 141,023	$ -	$ 14,164,671
1-4 family residential	23,439,616	336,869	735,442	-	24,511,927
Commercial - owner-occupied	27,521,300	298,082	1,248,821	-	29,068,203
Commercial - other	30,011,687	-	2,198,139	-	32,209,826
Commercial	7,877,400	-	20,602	-	7,898,002
Consumer	4,012,341	-	15,436	-	4,027,777
Total	$105,662,187	$ 1,858,756	$ 4,359,463	$ -	$ 111,880,406

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans and leases as of December 31, 2014 and 2013:

		Past Due Status (Accruing Loans)				
December 31, 2014:	Current	30-89 Days	90+ Days	Total Past Due	Non-Accrual	Total
Real estate:						
Construction and land development	$ 13,425,784	$ 1,508,852	$ -	$ 1,508,852	$ -	$ 14,934,636
1-4 family residential	26,663,140	499,625	785,398	1,285,023	-	27,948,163
Commercial - owner-occupied	28,225,453	424,739	-	424,739	-	28,650,192
Commercial - other	33,969,780	952,659	-	952,659	-	34,922,439
Commercial	13,223,368	3,556	-	3,556	-	13,226,924
Consumer	2,624,877	243,610	441,000	684,610	-	3,309,487
Total	$ 118,132,402	$ 3,633,041	$ 1,226,398	$ 4,859,439	$ -	$ 122,991,841
December 31, 2013:						
Real estate:						
Construction and land development	$ 13,810,999	$ 315,315	$ -	$ 315,315	$ 38,357	$ 14,164,671
1-4 family residential	24,467,703	-	-	-	44,224	24,511,927
Commercial - owner-occupied	28,363,049	-	517,093	517,093	188,061	29,068,203
Commercial - other	31,501,010	395,305	-	395,305	313,511	32,209,826
Commercial	7,868,608	29,394	-	29,394	-	7,898,002
Consumer	3,146,552	183,164	698,061	881,225	-	4,027,777
Total	$ 109,157,921	$ 923,178	$ 1,215,154	$ 2,138,332	$ 584,153	$ 111,880,406

The consumer past due amounts noted above as of December 31, 2014 consist primarily of guaranteed student loans. Ninety-eight percent of all outstanding principal and interest related to these loans are guaranteed by the federal government.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables detail activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014 and 2013. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2014:	Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for loan losses:					
Balance, beginning of year	$ 1,573,625	$ 74,835	$ 15,629	$ 323,685	$ 1,987,774
Provision (re-allocation) for loan losses	236,871	111,047	(6,086)	(141,832)	200,000
Loans charged-off	(315,000)	(24,262)	-	-	(339,262)
Recoveries	33,714	-	-	-	33,714
Ending balance	$ 1,529,210	$ 161,620	$ 9,543	$ 181,853	$ 1,882,226
Ending balance: individually evaluated for impairment	$ 285,000	$ 3,000	$ -	$ -	$ 288,000
Ending balance: collectively evaluated for impairment	$ 1,244,210	$ 158,620	$ 9,543	$ 181,853	$ 1,594,226
Loans:					
Ending balance	$ 106,455,430	$ 13,226,924	$ 3,309,487		$ 122,991,841
Ending balance: individual evaluated for impairment	$ 4,019,871	$ 8,559	$ 10,162		$ 4,038,592
Ending balance: collectively evaluated for impairment	$ 102,435,559	$ 13,218,365	$ 3,299,325		$ 118,953,249
December 31, 2013:					
Allowance for loan losses:					
Balance, beginning of year	$ 1,671,905	$ 77,792	$ 13,133	$ 198,101	$ 1,960,931
Provision (re-allocation) for loan losses	92,073	(2,957)	5,300	125,584	220,000
Loans charged-off	(279,980)	-	(3,362)	-	(283,342)
Recoveries	89,627	-	558	-	90,185
Ending balance	$ 1,573,625	$ 74,835	$ 15,629	$ 323,685	$ 1,987,774
Ending balance: individually evaluated for impairment	$ 190,000	$ -	$ 5,000	$ -	$ 195,000
Ending balance: collectively evaluated for impairment	$ 1,383,625	$ 74,835	$ 10,629	$ 323,685	$ 1,792,774
Loans:					
Ending balance	$ 99,954,627	$ 7,898,002	$ 4,027,777		$ 111,880,406
Ending balance: individual evaluated for impairment	$ 2,775,666	$ 20,602	$ 15,436		$ 2,811,704
Ending balance: collectively evaluated for impairment	$ 97,178,961	$ 7,877,400	$ 4,012,341		$ 109,068,702

A loan is considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail our impaired loans, by portfolio class as of December 31, 2014 and 2013:

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2014:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
With no allowance recorded:					
Real estate:					
Construction and land development	$ 133,331	$ 133,331	$ -	$ 136,879	$ 6,418
Commercial - owner-occupied	1,001,797	1,040,838	-	1,172,129	43,078
Consumer	10,162	10,162	-	12,719	1,039
Total with no allowance recorded	$ 1,145,290	$ 1,184,331	$ -	$ 1,321,727	$ 50,535
With an allowance recorded:					
Real estate:					
Construction and land development	$ 1,508,852	$ 1,508,852	$ 190,000	$ 1,508,852	$ 103,086
1-4 family residential	423,232	423,232	85,000	428,296	22,150
Commercial - other	952,659	952,659	10,000	961,605	70,850
Commercial	8,559	64,559	3,000	59,404	2,456
Total with an allowance recorded	$ 2,893,302	$ 2,949,302	$ 288,000	$ 2,958,157	$ 198,542
Total impaired loans	$ 4,038,592	$ 4,133,633	$ 288,000	$ 4,279,884	$ 249,077

December 31, 2013:					
With no allowance recorded:					
Real estate:					
Construction and land development	$ 141,023	$ 141,023	$ -	$ 145,502	$ 6,673
1-4 family residential	450,377	450,377	-	453,526	16,298
Commercial - owner-occupied	1,248,821	1,260,629	-	1,260,636	39,403
Commercial	20,602	20,602	-	80,970	2,808
Total with no allowance recorded	$ 1,860,823	$ 1,872,631	$ -	$ 1,940,634	$ 65,182
With an allowance recorded:					
Real estate:					
1-4 family residential	$ 621,934	$ 621,934	$ 120,000	$ 632,539	$ 34,686
Commercial - other	313,511	313,511	70,000	313,511	-
Consumer	15,436	15,436	5,000	17,202	1,200
Total with an allowance recorded	$ 950,881	$ 950,881	$ 195,000	$ 963,252	$ 35,886
Total impaired loans	$ 2,811,704	$ 2,823,512	$ 195,000	$ 2,903,886	$ 101,068

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans included loans that were classified as Troubled Debt Restructurings "TDRs". The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy, and (iv) the debtor's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of December 31, 2014 and 2013, there were $2,519,579 and $2,258,167, respectively, in loans considered restructured that are not on nonaccrual. Of the nonaccrual loans at December 31, 2014 and 2013, $0 and $188,061, respectively, met the criteria for restructured. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

The following tables summarize the loans that were modified as a TDR during the years ended December 31, 2014 and 2013:

December 31, 2014	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Impact on the Allowance for Loan Losses
Real estate:				
Commercial - other	1	$ 966,683	$ 966,683	$ 10,000
Total	1	$ 966,683	$ 966,683	$ 10,000
December 31, 2013				
Real estate:				
1-4 family residential	1	$ 69,285	$ 69,285	$ -
Total	1	$ 69,285	$ 69,285	$ -

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

There were no loans modified in a TDR for the years ended December 31, 2014 and 2013 that subsequently defaulted (i.e., 90 days or more past due following a modification) within twelve months of the date of restructure.

The Company has no commitments to lend additional funds to any of the related debtors whose terms have been modified in a TDR.

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the years ended December 31, 2014 and 2013 are as follows:

	Years Ended December 31,	
	2014	2013
Balance, beginning of year	$ 1,859,777	$ 1,637,662
Advances	1,353,538	847,474
Repayments	(1,227,462)	(625,359)
Balance, end of year	$ 1,985,853	$ 1,859,777

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2014	2013
Land	$ 444,572	$ 444,572
Buildings	920,090	920,090
Leasehold improvements	150,077	150,077
Furniture and equipment	844,512	910,308
Construction in progress	49,036	-
	2,408,287	2,425,047
Accumulated depreciation	(1,055,299)	(1,045,100)
	$ 1,352,988	$ 1,379,947

Software costs of $104,149 and $126,907, net of accumulated amortization of $88,275 and $93,709, are included in other assets as of December 31, 2014 and 2013, respectively.

The Company has a remaining cost to complete of $ 157,854 on the construction contract on the new Easley branch at December 31, 2014.

NOTE 4. PREMISES AND EQUIPMENT (Continued)

The Company leases two of its branch facilities under an operating lease agreement. The lease on the main branch had an original term of five years and was amended and extended during 2009 for a ten year term. The lease on the Easley branch has a ten year term and starts in January 2015. These leases require that the Company pay taxes, insurance, and maintenance on the facilities. The total minimum rental commitment, excluding any renewal options at December 31, 2014, under these leases, is as follows:

2015	$	271,036
2016		275,172
2017		279,391
2018		286,882
2019		292,945
Thereafter		598,468
	$	2,003,894

Total lease expense included in the consolidated statements of income for the years ended December 31, 2014 and 2013 is $203,231 and $199,256, respectively.

NOTE 5. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more was $21,019,778 and $18,136,502 at December 31, 2014 and 2013, respectively. Brokered certificates of deposit were $22,807,896 and $18,180,118 at December 31, 2014 and 2013, respectively. Brokered money market accounts were $2,401,377 and $10,737,385 at December 31, 2014 and 2013, respectively. Reciprocal deposits included in brokered amounts were $12,759,273 and $18,362,503 as of December 31, 2014 and 2013, respectively. The scheduled maturities of time deposits at December 31, 2014 are as follows:

2015	$ 20,675,384
2016	10,702,636
2017	2,963,704
2018	3,933,609
2019	1,170,000
	$ 39,445,333

Overdraft demand deposits reclassified to loans were $13,661 and $30,477 at December 31, 2014 and 2013, respectively. The Company had a concentration in deposits totaling $8,684,484 and $6,699,543 from one depositor at December 31, 2014 and 2013, respectively.

NOTE 6. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31,	
	2014	2013
Fixed and adjustable rate credit advances from the Federal Home Loan Bank, with a weighted average rate of .35% and 0.54% at December 31, 2014 and 2013, respectively.	$ 8,040,000	$ 6,750,000
	$ 8,040,000	$ 6,750,000

The contractual maturities of other borrowings as of December 31, 2014 are as follows:

2015	$ 7,040,000
2016	1,000,000
	$ 8,040,000

Advances from the Federal Home Loan Bank are secured by certain qualifying collateral loans of $42,506,681. As of December 31, 2013, the Company had available borrowing capacity of approximately $21,181,998 at the Federal Home Loan Bank.

The Company is approved to borrow from the Federal Reserve Bank discount window program. As of December 31, 2014, the Company's borrowing capacity was $4,645,812, based on certain qualifying loans of $5,783,389 pledged as collateral. There were no advances outstanding at December 31, 2014 and 2013.

At December 31, 2014, the Company had unused lines of credit totaling $10,300,000 which represents credit for overnight borrowings from correspondent financial institutions.

NOTE 7. DERIVATIVE INSTRUMENTS

Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated at part of a hedging relationship, the gain or loss is recognized in current earnings. From time to time, the Company may enter into floors, caps, or interest rate swaps to facilitate customer transactions and meet their financing needs. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions in order to minimize the risk to the Company. These swaps qualify as derivatives, but are not designated as hedging instruments.

Floors, caps, and interest rate swap contracts involve the risk of dealing with customers and counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk.

		Other Assets	Other Liabilities	Other Noninterest Income
	Notional	Estimated Fair Value	Estimated Fair Value	Gains (Losses)
December 31, 2014:				
Pay fixed/receive variable	$ 7,122,612	$ 91,389	$ -	$ (172,691)
Pay variable/receive fixed	7,122,612	-	91,389	172,691
Total interest rate agreements	$ 14,245,224	$ 91,389	$ 91,389	$ -
December 31, 2013:				
Pay fixed/receive variable	$ 6,044,158	$ 264,080	$ -	$ 196,678
Pay variable/receive fixed	6,044,158	-	264,080	(196,678)
Total interest rate agreements	$ 12,088,316	$ 264,080	$ 264,080	$ -

All changes in fair value are measured on a monthly basis. The net interest differential is recognized as an adjustment to interest income. In the event of early termination, the net proceeds received or paid on the interest rate swap agreements are recognized immediately in noninterest income and the future net interest differential, if any, is recognized prospectively in interest income.

NOTE 7. DERIVATIVE INSTRUMENTS (Continued)

The notional amounts of derivative instruments do not represent amounts exchanged by the parties and, therefore, are not a measure of the Company's credit exposure through its use of these instruments. Credit exposure on interest rate swaps, which represents the loss the Company would incur in the event the counterparties failed completely to perform according to the terms of the derivative instruments and the collateral held to support the credit exposure was of no value, is limited to the net fair value and related accrued interest receivable reduced by the amount of collateral pledged by the counterparty. The current credit exposure at December 31, 2014 and 2013 was $91,389 and $266,697 and the estimated potential future credit exposure was $197,451 and $164,104, respectively. The Company has accounts at other financial institutions which are used to hold funds pledged to cover the potential credit exposure related to their derivatives. At December 31, 2014 and 2013, the balance in these accounts totaled $360,000. These accounts are included in interest-bearing deposits in banks in the consolidated balance sheet.

The loans being hedged with these interest rate products are structured to include a prepayment make-whole clause. The prepayment make-whole fee represents a reasonable estimate of the economic loss from the early prepayment, in part or in whole, of the loan.

NOTE 8. EARNINGS PER SHARE

Presented below is a summary of the components used to calculate basic and diluted earnings per share.

	Years Ended December 31,	
	2014	2013
Basic Earnings Per Share:		
Weighted average common shares outstanding	1,845,748	1,845,200
Net income	$ 1,453,532	$ 1,141,011
Basic earnings per share	$ 0.79	$ 0.62
Diluted Earnings Per Share:		
Weighted average common shares outstanding	1,845,748	1,845,200
Net effect of the assumed exercise of stock options based on the treasury stock method	769	777
Total weighted average common shares and common stock equivalents outstanding	1,846,517	1,845,977
Net income	$ 1,453,532	$ 1,141,011
Diluted earnings per share	$ 0.79	$ 0.62

NOTE 9. EMPLOYEE STOCK OPTION PLAN

Incentive Stock Option Plan

The Company has a stock incentive plan (the "Plan"), which permits the grant of stock options to its officers, employees, directors and organizers of the Company for up to 270,000 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. Option awards are generally granted with an exercise price equal to the estimated fair market value of the Company's stock at the date of grant; those option awards generally vest based on three years of continuous service and have contractual terms of between seven and nine years. Dividends are not paid on unexercised options and dividends are not subject to vesting. The Plan provides for accelerated vesting if there is a change in control (as defined in the Plan). There was no compensation cost charged to salaries and employee benefits expense for the Plan for the years ended December 31, 2014 and 2013, respectively. There was no income tax benefits recognized in the statement of operations for share-based compensation arrangements for 2014 and 2013.

The fair value of each stock option award is estimated on the date of grant using a Black-Scholes-Merton valuation model. The Company considers historical data and peer group data to estimate expected volatilities and forfeiture rates within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Summaries of incentive stock option activity under the Plan as of December 31, 2014 and 2013, and changes during the years then ended are presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at January 1, 2014	26,672	$ 10.00	1.25
Granted	-	-	-
Exercised	(6,668)	10.00	-
Forfeited or expired	-	-	-
Outstanding at December 31, 2014	20,004	$ 10.00	0.25
Vested at December 31, 2014	20,004	$ 10.00	0.25
Outstanding at January 1, 2013	53,336	$ 10.00	1.25
Granted	-		
Exercised	-		
Forfeited or expired	(26,664)	10.00	
Outstanding at December 31, 2013	26,672	$ 10.00	1.25
Vested at December 31, 2013	26,672	$ 10.00	1.25

As of December 31, 2014 and 2013, all compensation cost related to share-based compensation arrangements granted under the Plan had been recognized by the Company.

NOTE 10. EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan ("ESOP") and 401(k)

The Company sponsors an employee stock ownership plan with 401(k) provisions. The purpose of the plan is to enable participating employees who are at least 18 years of age and have provided 1,000 hours of service to share in the growth and prosperity of the Company and to provide participants with an opportunity to accumulate capital for their future economic security. The plan is an employee stock ownership plan and a stock bonus plan under which eligible employees may choose to contribute up to 50% of their compensation up to the IRS mandated limit in any one year. The Company will make matching contributions on behalf of each participant up to a maximum of 100% of the participant's first 3% and 50% of the next 2% contributed. In addition, the Company may make additional discretionary contributions at the sole discretion of the Board of Directors. The Company may make annual contributions to service any ESOP debt. Distributions received by the ESOP may be used to service debt.

Compensation expense for the 401(k) match was $85,014 and $79,552 for the years ended December 31, 2014 and 2013, respectively. All stock transactions between the Company and the ESOP are transacted at the stock price obtained from the annual independent valuation. At December 31, 2014, the appraised value was $10.50 per share of common stock. There are 108,810 and 100,810 shares of the Company's stock held by the ESOP as of December 31, 2014 and 2013, respectively.

Deferred Compensation Plan

The Company has a compensation plan providing for death and retirement benefits for certain officers. The estimated amounts to be paid under the compensation plan are being funded through the purchase of life insurance policies on the officers. For the years ended December 31, 2014 and 2013, the Company expensed $147,204 and $123,008, respectively, for deferred compensation related to these plans. Accrued deferred compensation of $595,648 and $448,444 is included in other liabilities as of December 31, 2014 and 2013, respectively. Cash surrender values of $3,551,917 and $3,454,638 on the related insurance policies is included in bank owned life insurance as of December 31, 2014 and 2013, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheet. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

NOTE 11. COMMITMENTS AND CONTINGENCIES (Continued)

Loan Commitments (Continued)

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	December 31,	
	2014	2013
Commitments to extend credit	$ 12,947,906	$ 12,710,168
Performance standby letters of credit	138,883	411,033
	$ 13,086,789	$ 13,121,201

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2014 and 2013, the carrying amount of liabilities related to the Company's obligation to perform under performance standby letters of credit was insignificant. The Company has not been required to perform on any performance standby letters of credit, and the Company has not incurred any losses on performance standby letters of credit for the years ended December 31, 2014 and 2013.

Interest Rate Derivatives

The Company maintains an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The goal is to manage interest rate sensitivity by modifying the repricing characteristics of certain assets and liabilities so that certain movements in interest rates do not, on a material basis, adversely affect the net interest margin. The Company views this strategy as prudent management of interest rate sensitivity, such that earnings are not exposed to undue risk presented by changes in interest rates. As a matter of policy, the Company does not use speculative derivative instruments for interest rate risk management.

By using derivative instruments, the Company is potentially exposed to credit and market risk. If the counter-party fails to perform, credit risk is equal to the extent of the fair value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes the Company, and, therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, has no repayment risk. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically.

NOTE 11. COMMITMENTS AND CONTINGENCIES (Continued)

Interest Rate Derivatives (Continued)

The Company's derivative activities are monitored by its asset/liability management committee as part of that committee's oversight of the Company's asset/liability management and treasury functions. The Company's asset/liability management committee is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest-rate risk management.

Contingencies

In the normal course of business, the Company may be involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 12. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, residential and consumer loans to customers in Greenville County and surrounding counties. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas. Eighty seven percent of the Company's loan portfolio is concentrated in loans secured by real estate, of which a substantial portion is secured by real estate in the Bank's market area. Additionally, twelve percent of the Company's loan portfolio is concentrated in real estate construction loans and fifty two percent of the loan portfolio is secured by commercial real estate. Accordingly, the ultimate collectability of the loan portfolio and recovery of the carrying amount of foreclosed assets is susceptible to changes in real estate conditions in the Company's primary market area. Other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 15% of unimpaired capital, as defined, or approximately $3,234,000.

NOTE 13. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2014, approximately $1,472,000 of retained earnings were available for dividend declaration without regulatory approval.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2014 and 2013, the Bank met all capital adequacy requirements to which it is subject.

NOTE 13. REGULATORY MATTERS (Continued)

As of December 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
December 31, 2014:						
Total Capital to Risk Weighted Assets	$ 21,242	17.06%	$ 9,962	8.00%	$ 12,452	10.00%
Tier I Capital to Risk Weighted Assets	$ 19,682	15.81%	$ 4,981	4.00%	$ 7,471	6.00%
Tier I Capital to Average Assets	$ 19,682	13.04%	$ 6,037	4.00%	$ 7,546	5.00%
December 31, 2013:						
Total Capital to Risk Weighted Assets	$ 20,533	18.44%	$ 8,909	8.00%	$ 11,136	10.00%
Tier I Capital to Risk Weighted Assets	$ 19,134	17.18%	$ 4,455	4.00%	$ 6,682	6.00%
Tier I Capital to Average Assets	$ 19,134	12.84%	$ 5,961	4.00%	$ 7,451	5.00%

In December 2010, the Basel Committee on Bank Supervision ("BCBS") finalized a set of international guidelines for determining regulatory capital known as "Basel III." In July 2013, the federal bank regulators approved final regulatory capital rules implementing BCBS's December 2010 capital framework as well as certain provisions of the Dodd-Frank Act. The new capital rules under Basel III also substantially revise the risk-based capital requirements applicable to banking institutions as compared to the general risk-based capital rules now in effect. The new capital rules revise the components of capital and address other issues affecting the numerator in regulatory capital ratios. The new capital rules also address asset risk weights and other issues affecting the denominator in regulatory capital ratios and replace the existing general risk-weighting approach. The new capital rules are effective for the Bank on January 1, 2015 (subject to a phase-in period for various components).

The new capital rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments to capital as compared to existing regulations.

Under the new capital rules, the minimum capital ratios as of January 1, 2015 will be as follows:

- 4.5% CET1 to risk-weighted assets
- 6.0% Tier 1 capital (CET1 plus additional Tier 1 capital) to risk weighted assets; and
- 8.0% Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to total quarterly average assets, as defined, (leverage ratio)

NOTE 13. REGULATORY MATTERS (Continued)

The new capital rules also introduce a new capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is comprised entirely of CET1, on top of these minimum risk-weighted asset ratios and will be subject to phase-in through January 1, 2019. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. When fully phased-in on January 1, 2019, the new capital rules will require the Bank to maintain such additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The new capital rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain deferred tax assets, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 will be subject to phase-in through January 1, 2019.

In addition, under the new capital rules, the Bank must maintain regulatory capital ratios of (i) CET1 to risk-weighted assets of at least 6.5%, (ii) Tier 1 capital to risk-weighted assets of at least 8.0%, (iii) Total capital to risk-weighted assets of at least 10.0%, and (iv) Tier 1 capital to quarterly average assets (leverage ratio) of at least 5.0% to be considered well capitalized under the regulatory framework for prompt corrective action. These requirements are effective on January 1, 2015.

Management has evaluated all of the fully phased-in requirements of the new capital rules and the effects of these requirements on the Bank's capital structure. Management does not believe that these new requirements will have a significant impact on regulatory capital of the Bank.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash, Due From Banks, and Interest-Bearing Deposits in Banks: The carrying amounts of cash, due from banks, and interest bearing deposits in banks approximate fair values based on the short-term nature of the assets.

Securities: Where quoted prices are available in an active market, management classifies the securities within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities.

If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, management classifies those securities in level 3.

Loans Held for Sale: Due to their short term nature, the carrying amount of loans held for sale approximates fair value.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated based on discounted contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Derivative Assets and Liabilities: The Company uses derivatives to manage interest rate risk. Fair values are determined based on dealer quotes and pricing models.

Deposits: The fair values disclosed for demand deposits (for example, interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowings and Repurchase Agreements: The carrying amount of adjustable rate borrowings approximates fair value. The fair value of fixed-rate borrowings is estimated based on discounted contractual cash flows using interest rates being offered for borrowings of similar maturities.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Off-balance Sheet Credit-Related Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Assets and Liabilities Measured at Fair Value on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
December 31, 2014				
Assets				
Securities available for sale	$ -	$ 14,899,663	$ -	$ 14,899,663
Interest rate derivative	-	91,389	-	91,389
Total assets at fair value	$ -	$ 14,991,052	$ -	$ 14,991,052
Liabilities				
Interest rate derivative	$ -	$ 91,389	$ -	$ 91,389
Total liabilities at fair value	$ -	$ 91,389	$ -	$ 91,389
December 31, 2013				
Assets				
Securities available for sale	$ -	$ 16,875,159	$ -	$ 16,875,159
Interest rate derivative	-	264,080	-	264,080
Total assets at fair value	$ -	$ 17,139,239	$ -	$ 17,139,239
Liabilities				
Interest rate derivative	$ -	$ 264,080	$ -	$ 264,080
Total liabilities at fair value	$ -	$ 264,080	$ -	$ 264,080

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis: Under certain circumstances, management makes adjustments to fair value for the Company's assets although they are not measured at fair value on an ongoing basis. The following tables present the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2014 and 2013, for which a nonrecurring change in fair value has been recorded:

	Carrying Value			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Total Losses
December 31, 2014				
Impaired loans	$ -	$ -	$ 2,873,355	$ (211,833)
Other real estate owned	-	-	87,177	(2,816)
	$ -	$ -	$ 2,960,532	$ (214,649)
December 31, 2013				
Impaired loans	$ -	$ -	$ 1,276,771	$ (15,000)
Other real estate owned	-	-	352,284	(214,000)
	$ -	$ -	$ 1,629,055	$ (229,000)

Impaired Loans

Loans considered impaired under impairment guidance are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent. Impaired loans are classified within Level 3 of the fair value hierarchy.

The fair values of impaired loans were measured based either on the fair value of collateral method or the present value of expected future cash flows method. For loans measured under the fair value of collateral method, the collateral is generally real estate but could also be business assets including equipment, inventory, and/or accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values may be discounted for costs to sell under certain approaches, and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts, which typically range from zero to ten percent of the appraised value, are inherently subjective and thus are considered significant unobservable inputs for determining fair value.

For loans measured under the present value of expected future cash flows method, management estimates future payments to be received based on many factors, including the current terms of the loan, the prior payment history and an evaluation of the debt service capacity of the borrower and guarantors. The expected cash flows are then discounted to present value using the loan's original effective rate. Such estimates about future cash flows are inherently subjective and thus are considered significant unobservable inputs for determining fair value.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Foreclosed Assets

Foreclosed assets, consisting of properties obtained through foreclosure or in satisfaction of loans, are recorded at the fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of the carrying value or fair value less costs to sell. Fair values are generally based on third party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal. Such discounts, which typically constitute zero to ten percent of the appraised value, are inherently subjective and thus are considered significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a write-down is recognized in noninterest expense.

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	December 31,			
	2014		2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash, due from banks, and interest-bearing deposits in banks	$ 10,163,932	$ 10,163,932	$ 10,755,836	$ 10,755,836
Securities available for sale	14,899,663	14,899,663	16,875,159	16,875,159
Restricted equity securities	492,100	492,100	552,600	552,600
Loans held for sale	878,750	878,750	297,000	297,000
Loans, net	121,056,486	120,937,360	109,818,734	110,167,433
Interest rate derivative	91,389	91,389	264,080	264,080
Accrued interest receivable	450,066	450,066	436,347	436,347
Financial liabilities:				
Deposits	122,851,931	123,133,424	116,194,598	116,438,443
Repurchase agreements	1,958,324	1,958,324	1,301,252	1,301,252
Other borrowings	8,040,000	8,011,917	6,750,000	6,726,893
Interest rate derivative	91,389	91,389	264,080	264,080
Accrued interest payable	59,242	59,242	67,822	67,822

NOTE 15. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheets, statements of income and cash flows of PBSC Financial Corporation:

CONDENSED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
Assets		
Cash	$ 190,830	$ 12,488
Investment in subsidiary	20,004,689	19,315,421
Total assets	$ 20,195,519	$ 19,327,909
Stockholders' equity	$ 20,195,519	$ 19,327,909

CONDENSED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Dividends from subsidiary	$ 925,000	$ 332,000
Other expenses	18,700	18,698
Income before equity in undistributed income of subsidiary	906,300	313,302
Equity in undistributed income of subsidiary	547,232	827,709
Net income	$ 1,453,532	$ 1,141,011

NOTE 15. PARENT COMPANY FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING ACTIVITIES		
Net income	$ 1,453,532	$ 1,141,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed earnings of subsidiary	(547,232)	(827,709)
Net cash provided by operating activities	906,300	313,302
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	66,680	-
Dividends paid	(794,638)	(756,533)
Net cash used in financing activities	(727,958)	(756,533)
Net increase (decrease) in cash	178,342	(443,231)
Cash at beginning of year	12,488	455,719
Cash at end of year	$ 190,830	$ 12,488