

## **Appendix A**

**Agreement and Plan of Combination and Reorganization, dated July 31, 2017, by and among CB Financial Corporation, Cornerstone Bank, PB Financial Corporation, PB Acquisition Corp. I and Providence Bank**



**AGREEMENT AND PLAN OF COMBINATION AND REORGANIZATION**

**BY AND AMONG**

**CB FINANCIAL CORPORATION,**

**CORNERSTONE BANK,**

**PB FINANCIAL CORPORATION,**

**PROVIDENCE BANK,**

**AND**

**PB ACQUISITION CORP. I**

**July 31, 2017**

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## AGREEMENT AND PLAN OF COMBINATION AND REORGANIZATION

This AGREEMENT AND PLAN OF COMBINATION AND REORGANIZATION (this “Agreement”) by and among CB FINANCIAL CORPORATION, a North Carolina corporation (“CB”), CORNERSTONE BANK, a North Carolina commercial bank and the wholly-owned subsidiary of CB (“Cornerstone Bank”), PB FINANCIAL CORPORATION, a North Carolina corporation (“Holdco”), PROVIDENCE BANK, a North Carolina commercial bank (“Providence Bank”), and PB ACQUISITION CORP. I, a North Carolina corporation and wholly owned subsidiary of Holdco (“Merger Sub”), is dated as of July 31, 2017. Collectively, CB, Cornerstone Bank, Holdco, Providence Bank, and Merger Sub may be referred to herein as the “Parties” and, each individually, as a “Party.”

### WITNESSETH:

WHEREAS, the Board of Directors of Providence Bank has determined to submit a plan of reorganization (the “Plan”) to the shareholders of Providence Bank at a special meeting of shareholders (the “Providence Meeting”) pursuant to which the outstanding shares of Providence Bank will be exchanged for shares of Holdco and Providence Bank will become a subsidiary of Holdco (the “Reorganization”); and

WHEREAS, the Boards of Directors of CB, Cornerstone Bank, Holdco, Providence Bank, and Merger Sub have determined that it is in the best interests of their respective companies and their shareholders to consummate a business combination pursuant to this Agreement in which Merger Sub will merge with and into CB (the “First Step Merger”) and immediately thereafter CB will merge with and into Holdco (the “Holding Company Merger”); and

WHEREAS, following the Holding Company Merger, Cornerstone Bank will merge with and into Providence Bank (the “Bank Merger”) (the First Step Merger, the Holding Company Merger and the Bank Merger are collectively referred to herein as the “Mergers”);

WHEREAS, the outstanding shares of capital stock of CB will be converted into the right to receive the Merger Consideration set forth in Section 1.4 of this Agreement at the effective time of the First Step Merger;

WHEREAS, as a material inducement and as additional consideration to enter into this Agreement, certain shareholders of CB have simultaneously with the execution and delivery of this Agreement entered into support agreements with Holdco, 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, upon the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, CB, Cornerstone Bank, Holdco, Providence Bank and Merger Sub desire to make certain representations, warranties and agreements in connection with the Mergers and also to prescribe certain conditions to the Mergers.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained in this Agreement, the parties hereto agree as follows:

## **ARTICLE I** **THE MERGERS**

### **1.1 The First Step Merger, the Holding Company Merger and the Bank Merger.**

(a) Subject to the terms and conditions of this Agreement, in accordance with Chapter 53C of the North Carolina General Statutes (the “Bank Act”) and Chapter 55 of the North Carolina General Statutes (the “NCBCA”), Merger Sub shall merge with and into CB at the Effective Time, thereby consummating the First Step Merger and causing CB to become a wholly owned subsidiary of Holdco. At the Effective Time, the separate corporate existence of Merger Sub shall cease and the corporate existence of CB, as the surviving corporation in the Merger, shall continue under the laws of the State of North Carolina.

(b) Immediately after the Effective Time, subject to the terms and conditions of this Agreement, in accordance with the Bank Act and the NCBCA, CB shall merge with and into Holdco, thereby consummating the Holding Company Merger and causing Cornerstone Bank to become a wholly owned subsidiary of Holdco. Holdco, as the surviving corporation in the Holding Company Merger, is hereinafter sometimes referred to as the “Surviving Corporation” and shall continue its corporate existence under the laws of the State of North Carolina and the separate existence of CB shall thereupon cease. The Parties intend that the Holding Company Merger qualify as a subsidiary liquidation as described under, and subject to, Sections 332 and 337 of the Internal Revenue Code of 1986, as amended (the “Code”).

(c) In connection with the Holding Company Merger and pursuant to Section 6.14 of this Agreement, Holdco shall execute a supplemental indenture and such other instruments and agreements as are necessary to assume all obligations of CB under the indenture, guarantee agreement and amended and restated declaration of trust of CB Financial Capital Trust I.

(d) Following the Holding Company Merger, subject to the terms and conditions of this Agreement, in accordance with the Bank Act and the NCBCA, Cornerstone Bank shall merge with and into Providence Bank pursuant to the Agreement and Plan of Merger attached hereto as Exhibit A (the “Bank Merger Agreement”). Providence Bank shall be the surviving bank in the Bank Merger (the “Surviving Bank”) and shall continue its corporate existence under the laws of the State of North Carolina and the separate existence of Cornerstone Bank shall thereupon cease.

(e) The articles of incorporation and bylaws of Holdco in effect at the effective time of the Holding Company Merger shall be the articles of incorporation and bylaws of the Surviving Corporation, following the Holding Company Merger. The directors and officers of Holdco immediately prior to the effective time of the Holding Company Merger shall, from and after such time, be the directors and officers of the Surviving Corporation, until their successors have been duly elected or appointed and qualified or until their earlier death,

resignation or removal in accordance with the articles of incorporation and bylaws of the Surviving Corporation.

(f) The articles of incorporation and bylaws of Providence Bank in effect at the effective time of the Bank Merger shall be the articles of incorporation and bylaws of the Surviving Bank, following the Bank Merger. The directors and officers of Providence Bank immediately prior to the effective time of the Bank Merger shall, from and after the effective time of the Bank Merger, be the directors and officers of the Surviving Bank, until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and bylaws of the Surviving Bank.

(g) Notwithstanding any provision herein to the contrary, Holdco may at any time change the method of effecting the Mergers, or any of them, if and to the extent Holdco deems such change to be desirable; provided, however, that no such change shall (i) alter or change the amount or kind of the Merger Consideration provided for in this Agreement, or (ii) materially impede or delay consummation of the transactions contemplated by this Agreement. In the event of such election by Holdco, the Parties hereto shall execute one or more appropriate amendments to this Agreement.

1.2 Effective Time. Subject to satisfaction or waiver of all conditions precedent set forth in this Agreement, the First Step Merger shall become effective as set forth in the articles of merger to be submitted to the North Carolina Commissioner of Banks (the “Commissioner”) and thereafter filed with the North Carolina Secretary of State (the “Articles of Merger”) on or about the Closing Date. The term “Effective Time” shall be the date and time when the First Step Merger becomes effective as set forth in the Articles of Merger. The Holding Company and the Bank Merger shall each become effective as set forth in articles of merger to be submitted to the Commissioner and thereafter filed with the North Carolina Secretary of State on or after the Closing Date.

1.3 Effects of the Mergers. The First Step Merger, upon effectiveness, shall have the effects set forth in Sections 53C-10-201 and 55-11-06 of the North Carolina General Statutes. The Holding Company Merger, upon effectiveness, shall have the effects set forth in Sections 53C-10-201 and 55-11-06 of the North Carolina General Statutes. The Bank Merger, upon effectiveness, shall have the effects set forth in Sections 53C-7-201 and 55-11-06 of the North Carolina General Statutes.

1.4 Conversion of Shares. At the Effective Time, by virtue of the First Step Merger and without any action on the part of CB, Cornerstone Bank, Holdco, Providence Bank, Merger Sub or the holder of any of the following securities:

(a) Each share of the Common Stock, par value \$1.00 per share, of Holdco (the “Holdco Common Stock”) issued and outstanding immediately before the Effective Time shall remain issued and outstanding and shall not be affected by the First Step Merger.

(b) All shares of common stock, no par value per share, of CB issued and outstanding immediately before the Effective Time (the “CB Common Stock”) that are owned,

directly or indirectly, by CB, Cornerstone Bank, Holdco, Providence Bank or Merger Sub (other than shares of CB Common Stock held in trust accounts, including grantor or rabbi trust accounts, managed accounts and the like, or otherwise held in a fiduciary or agency capacity, that are beneficially owned by third parties (any such shares, "Trust Account Common Shares") and other than shares held as a result of debts previously contracted) shall no longer be outstanding, shall automatically be cancelled and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(c) Excluding Dissenting Shares, each share of CB Common Stock (excluding shares that are owned, directly or indirectly, by CB, Cornerstone Bank, Holdco, Providence Bank or Merger Sub, in each case other than Trust Account Common Shares or shares held as a result of debts previously contracted) issued and outstanding immediately before the Effective Time shall cease to be outstanding and shall be converted into and exchanged for the right to receive \$0.235 per share in cash ("Merger Consideration").

(d) Subject to Section 1.5, from and after the Effective Time, all of the shares of CB Common Stock (other than those to be cancelled pursuant to Section 1.4(c)) shall no longer be outstanding, shall automatically be cancelled and shall cease to exist as of the Effective Time, and each book entry notation of record ownership and each certificate previously representing any such shares of CB Common Stock (each, a "Certificate") shall thereafter represent only the right to receive the Merger Consideration into which the shares of CB Common Stock represented by such book entry notation of record ownership or such Certificate have been converted pursuant to this Section 1.4, as well as any dividends to which holders of CB Common Stock become entitled.

(e) Each share of capital stock of Merger Sub issued and outstanding immediately prior to the Effective Time will be converted into one validly issued, fully paid and non-assessable share of CB Common Stock and the CB Common Stock issued pursuant to such conversion will constitute all of the issued and outstanding shares of capital stock of CB.

1.5 Dissenting Shareholders. Any holder of CB Common Stock who perfects such holder's dissenters' rights of appraisal in accordance with and as contemplated by Section 55-13-02 of the NCBCA shall be entitled to receive the value of such shares in cash as determined pursuant to such provision of the NCBCA ("Dissenting Shares"); provided, that no such payment shall be made to any dissenting shareholder unless and until such dissenting shareholder has complied with the applicable provisions of the NCBCA and surrendered to CB the Certificate or Certificates representing the Dissenting Shares for which payment is being made or has given written instructions for the surrender of any such Dissenting Shares held in book entry form. In the event that after the Effective Time a dissenting shareholder of CB fails to perfect, or effectively withdraws or loses, such holder's right to appraisal and of payment for such holder's shares, Holdco shall issue and deliver the Merger Consideration to which such holder of CB Common Stock is entitled under Section 1.4 upon surrender by such holder of the Certificate or Certificates representing shares of CB Common Stock held by such holder or delivery of a written instruction for the surrender or any such shares held in book entry form.

1.6 Withholding Rights. Each of Holdco, the Exchange Agent, and any of the other Parties is entitled to deduct and withhold from any consideration otherwise payable to any

Person pursuant to this Agreement such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code or any applicable law relating to Taxes. To the extent such amounts are paid over to, or deposited with, the relevant governmental authority by Holdco, the Exchange Agent or another Party, such withheld amounts will be treated for all purposes of this Agreement as having been paid to the applicable Person in respect to which such deduction and withholding was made.

## **ARTICLE II**

### **DELIVERY OF MERGER CONSIDERATION**

2.1 Exchange Procedures. Within six (6) Business Days occurring after the Effective Time, Holdco shall cause the exchange agent selected by Holdco, and reasonably acceptable to CB (the “Exchange Agent”), to mail to each holder of record of shares of CB Common Stock a transmittal form and other appropriate transmittal and instruction materials (which shall specify, with respect to shares of CB Common Stock held in certificated form, that delivery shall be effected, and risk of loss and title to the applicable Certificates shall pass, only upon proper delivery of such Certificates to the Exchange Agent) which shall be reasonably acceptable to CB, Holdco and their respective counsel. Any Certificate or Certificates so delivered shall be duly endorsed as the Exchange Agent may reasonably require. In the event that shares of CB Common Stock represented by Certificates or held in uncertificated, book entry form are the subject of a transfer that has not been registered in the transfer records of CB, the Merger Consideration provided in Section 1.4 may be issued to a transferee if (i) the Certificates representing such shares are delivered to the Exchange Agent, accompanied by all documents required to evidence such transfer, or (ii) evidence of a written instruction transferring registered ownership of such shares to the transferee is delivered to the Exchange Agent. If any Certificate shall have been lost, stolen, mislaid, mutilated or destroyed, upon receipt of (i) an affidavit of that fact from the holder claiming such Certificate to be lost, mislaid, stolen, mutilated or destroyed, (ii) such bond, security or indemnity as Holdco and the Exchange Agent may reasonably require, and (iii) any other documents necessary to evidence and effect the *bona fide* exchange thereof, the Exchange Agent shall issue and pay to such holder the Merger Consideration into which the shares represented by such lost, mislaid, stolen, mutilated or destroyed Certificate shall have been converted. The Exchange Agent may establish such other reasonable and customary rules and procedures in connection with its duties as it may deem appropriate. After the Effective Time, each holder of shares of CB Common Stock (other than shares to be canceled pursuant to Section 1.4(b) or as to which statutory dissenters’ rights of appraisal have been perfected as provided in Section 1.5) issued and outstanding at the Effective Time shall (i) surrender the Certificate or Certificates representing such shares to the Exchange Agent or (ii) give an instruction surrendering such shares to the Exchange Agent, and shall promptly upon surrender thereof receive in exchange therefor the Merger Consideration provided in Section 1.4. Holdco shall not be obligated to deliver the Merger Consideration to which any former holder of shares of CB Common Stock is entitled as a result of the First Step Merger until such holder either (A) surrenders such holder’s Certificate or Certificates for exchange as provided in this Section 2.1, or in lieu thereof, such bond, security or indemnity as Holdco and the Exchange Agent may reasonably require, or (B) gives a written instruction surrendering such shares for exchange as provided in this Section 2.1. Any other provision of this Agreement notwithstanding, none of Holdco, Providence Bank, Merger Sub, CB, Cornerstone Bank or the Exchange Agent shall be liable to a holder of shares of CB Common Stock for any amounts paid

or property delivered in good faith to a public official pursuant to any applicable abandoned property, escheat or similar law.

2.2 Rights of Former CB Shareholders. At the Effective Time, the stock transfer books of CB shall be closed as to holders of shares of CB Common Stock immediately prior to the Effective Time, and no transfer of shares of CB Common Stock by any such holder shall thereafter be made or recognized. Until surrendered for exchange in accordance with the provisions of Section 2.1, each Certificate and each book entry notation theretofore representing ownership of shares of CB Common Stock (other than shares to be canceled pursuant to Section 1.4(b) or as to which dissenters' rights of appraisal have been perfected as provided in Section 1.5) shall from and after the Effective Time represent for all purposes only the right to receive the Merger Consideration in exchange therefor. No interest shall be payable with respect to the Merger Consideration or any cash to be paid under Section 1.5 or this Section 2.2 except to the extent required in connection with the exercise of dissenters' rights of appraisal.

### **ARTICLE III**

#### **REPRESENTATIONS AND WARRANTIES OF CB AND CORNERSTONE BANK**

Except as disclosed in the disclosure schedule (the "CB Disclosure Schedule") delivered by CB and Cornerstone Bank to Holdco and Providence Bank before the execution of this Agreement (which schedule sets 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 III; provided, however, that notwithstanding anything in this Agreement to the contrary, (i) no such item is required to be set forth in such schedule as an exception to a representation or warranty if its absence would not result in the related representation or warranty being deemed untrue or incorrect under the standard established by Section 9.2 and (ii) the mere inclusion of an item in such schedule as an exception to a representation or warranty shall not be deemed an admission that such item represents a material exception or material fact, event or circumstance or that such item has had or would be reasonably likely to have a Material Adverse Effect on CB or Cornerstone Bank), CB and Cornerstone Bank hereby represent and warrant to Holdco and Providence Bank as follows:

#### **3.1 Corporate Organization.**

(a) CB is a corporation duly incorporated, validly existing and in good standing under the laws of the State of North Carolina. CB has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary.

(b) True, complete and correct copies of the Articles of Incorporation of CB (the "CB Articles"), and the Bylaws of CB (the "CB Bylaws"), each as in effect as of the date of this Agreement, have previously been made available to Holdco and Providence Bank.



(c) CB has no Subsidiaries except as set forth in Section 3.1(c) of the Disclosure Schedule, and CB owns all of the equity interests in each of its Subsidiaries. As used in this Agreement, the word “Subsidiary”, when used with respect to a Party hereto, means any corporation, partnership, limited liability company or other organization, whether incorporated or unincorporated, that is consolidated with such Party for financial reporting purposes under U.S. generally accepted accounting principles (“GAAP”). No capital stock (or other equity interest) of any such Subsidiary is or may become required to be issued (other than to CB or any CB Subsidiary, collectively the “CB Entities”) by reason of any CB Rights, and there are no Contracts by which any such Subsidiary is bound to issue (other than to another CB Entity) additional shares of its capital stock (or other equity interests) or CB Rights or by which any CB Entity is or may be bound to transfer any shares of the capital stock (or other equity interests) of any such Subsidiary (other than to another CB Entity). There are no Contracts relating to the rights of any CB Entity to vote or to dispose of any shares of the capital stock (or other equity interests) of any such Subsidiary. All of the shares of capital stock (or other equity interests) of each Subsidiary are fully paid and nonassessable and are owned directly or indirectly by CB free and clear of any Lien.

(d) Cornerstone Bank is a commercial bank duly incorporated, validly existing and in good standing under the laws of the State of North Carolina. Cornerstone Bank has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary.

(e) True, complete and correct copies of the Articles of Incorporation of Cornerstone Bank (the “Cornerstone Bank Articles”), and the Bylaws of Cornerstone Bank (the “Cornerstone Bank Bylaws”), as in effect as of the date of this Agreement, have previously been made available to Holdco and to Providence Bank.

(f) The deposit accounts of Cornerstone Bank are insured by the Federal Deposit Insurance Corporation (the “FDIC”) through the Deposit Insurance Fund to the fullest extent permitted by law, and all premiums and assessments required to be paid in connection therewith have been paid when due.

### 3.2 Capitalization.

(a) The authorized capital stock of CB consists of 80,000,000 shares of CB Common Stock, of which, as of the date of this Agreement (the “CB Capitalization Date”), 47,544,924 shares were issued and outstanding, and 20,000,000 shares of preferred stock (the “CB Preferred Stock”), of which, as of the CB Capitalization Date, no shares were issued and outstanding. Except as disclosed in Schedule 3.2(a) of the CB Disclosure Schedule, as of the CB Capitalization Date, no shares of CB Common Stock or CB Preferred Stock were reserved for issuance. CB has no outstanding vested or unvested stock options to purchase securities of CB (“CB Stock Options”) and no outstanding grants of vested or unvested shares of restricted stock (“CB Restricted Shares”) (CB Stock Options and CB Restricted Shares being collectively referred to as the “CB Rights” and each, individually, as a “CB Right”). All of the issued and

outstanding shares of CB Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights. As of the date of this Agreement, no bonds, debentures, notes or other indebtedness of CB having the right to vote on any matters on which its shareholders may vote are issued or outstanding. As of the date of this Agreement, CB does not have and is not bound by any outstanding subscriptions, options, warrants, calls, rights, commitments or agreements of any character calling for the purchase, issuance or vesting of, or the payment of any amount based on, any shares of CB Common Stock, CB Preferred Stock, or any other equity securities of CB or any securities representing the right to purchase or otherwise receive any shares of CB Common Stock, CB Preferred Stock, or other equity securities of CB. As of the date of this Agreement, there are no contractual obligations of CB (i) to repurchase, redeem or otherwise acquire any shares of capital stock of CB or any equity security of CB or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of CB or (ii) pursuant to which CB is or could be required to register shares of CB capital stock or other securities under the Securities Act of 1933, as amended (the “Securities Act”). No other equity-based awards of CB are outstanding as of the CB Capitalization Date. Except as set forth on Section 3.2(a) of the CB Disclosure Schedule, since December 31, 2016 through the date hereof, CB has not (A) issued or repurchased any shares of CB Common Stock, CB Preferred Stock or other equity securities of CB, or (B) issued or awarded any CB Rights or any other equity-based awards under the CB Stock Plans.

(b) The authorized capital stock of Cornerstone Bank consists of 20,000,000 shares of common stock, \$5.00 par value per share, of which, as of the date of this Agreement, 959,728 shares were issued and outstanding. No equity securities of Cornerstone Bank are reserved for issuance and Cornerstone Bank has no outstanding vested or unvested stock options to purchase securities and no outstanding grants of vested or unvested shares of restricted stock. All of the issued and outstanding shares of Cornerstone Bank’s common stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights. As of the date of this Agreement, no bonds, debentures, notes or other indebtedness of Cornerstone Bank having the right to vote on any matters on which its shareholders may vote are issued or outstanding. As of the date of this Agreement, Cornerstone Bank does not have and is not bound by any outstanding subscriptions, options, warrants, calls, rights, commitments or agreements of any character calling for the purchase, issuance or vesting of, or the payment of any amount based on, any shares of Cornerstone Bank common stock or any other equity securities of Cornerstone Bank or any securities representing the right to purchase or otherwise receive any equity securities of Cornerstone Bank. As of the date of this Agreement, there are no contractual obligations of Cornerstone Bank to repurchase, redeem or otherwise acquire any shares of capital stock of Cornerstone Bank or any equity security of Cornerstone Bank or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of Cornerstone Bank. No options, stock awards, stock rights, other equity-based awards or restricted equity securities of Cornerstone Bank are outstanding. Since December 31, 2016 through the date hereof, Cornerstone Bank has not (A) issued or repurchased any shares of equity securities of Cornerstone Bank, or (B) issued or awarded any options, restricted shares or any other equity-based awards.

(c) Section 3.2(c) of the CB Disclosure Schedule sets forth CB’s capital stock, equity interest or other direct or indirect ownership interest in any Person, where such ownership

interest is equal to or greater than five percent (5%) of the total ownership interest of such Person. CB owns all of the issued and outstanding shares of Cornerstone Bank common stock.

### 3.3 Authority; No Violation.

(a) Each of CB and Cornerstone Bank has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly, validly and unanimously approved by the Board of Directors of CB (the “CB Board”) and the Board of Directors of Cornerstone Bank (“Cornerstone Bank Board”). As of the date of this Agreement, the CB Board has determined that the First Step Merger, on substantially the terms and conditions set forth in this Agreement, is advisable and in the best interests of CB and its shareholders, has directed that this Agreement, and the First Step Merger, be submitted to CB’s shareholders for consideration at a duly held meeting of such shareholders and has determined to recommend that CB’s shareholders vote in favor of the adoption and approval of this Agreement and the transactions contemplated hereby. Additionally, the CB Board has directed that the outstanding shares of Cornerstone Bank be voted in favor of this Agreement, the Bank Merger Agreement, and the Bank Merger. Except for (i) the approval of the First Step Merger pursuant to this Agreement by the affirmative vote of the holders of the outstanding shares of CB Common Stock entitled to vote at such meeting as required by North Carolina law, (ii) the approval of the Holding Company Merger pursuant to this Agreement by the affirmative vote of the holder of the shares of Common Stock of CB outstanding following the First Step Merger, and (iii) the approval of the Bank Merger by the CB Board, acting to direct the vote of the sole holder of Cornerstone Bank’s capital stock, no other corporate proceedings on the part of CB or Cornerstone Bank are necessary to approve the First Step Merger, the Holding Company Merger, the Bank Merger, the Bank Merger Agreement or this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by CB and Cornerstone Bank and (assuming due authorization, execution and delivery by Holdco, Merger Sub and Providence Bank) constitutes the valid and binding obligation of CB and Cornerstone Bank, and is enforceable against each of CB and Cornerstone Bank, in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization, arrangement, liquidation, subrogation or similar laws affecting the rights of creditors generally or by 12 U.S.C. Section 1818(b)(6)(D) (or any successor statute) and any bank regulatory powers and subject to general principles of equity).

(b) Except as set forth on Section 3.3(b) of the CB Disclosure Schedule, neither the execution and delivery of this Agreement by CB and Cornerstone Bank nor the consummation by CB and Cornerstone Bank of the transactions contemplated hereby, nor compliance by CB and Cornerstone Bank with any of the terms or provisions of this Agreement, will (i) assuming that all required shareholder approvals have been obtained, violate any provision of the CB Articles or the CB Bylaws or (ii) assuming that all required shareholder approvals and the consents, approvals and filings referred to in Section 3.4 are duly obtained and/or made, (A) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to CB or Cornerstone Bank or any of their respective properties or assets or (B) violate, conflict with, result in a material breach of any provision of or the loss of any material benefit under, constitute a default (or an event that, 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 respective properties or assets of CB or Cornerstone Bank under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which CB or Cornerstone Bank is a party or by which either of them or any of their respective properties or assets are bound.

3.4 Consents and Approvals. Except for (a) the filing of applications and notices, as applicable, with the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) under the Federal Reserve Act of 1913, as amended (“FRA Act”) and the Bank Holding Company Act of 1956, as amended (the “BHCA”), the FDIC under the Federal Deposit Insurance Act, as amended (the “FDI Act”), and the Commissioner under the Bank Act with respect to the Reorganization, the Mergers and the registration of Holdco as a bank holding company under the BHCA and approval of such applications and notices, (b) the filing of any required applications, filings or notices with any other federal or state banking, insurance or other regulatory or self-regulatory authorities or any courts, administrative agencies or commissions or other governmental authorities or instrumentalities (the Federal Reserve Board, the FDIC, the Commissioner and each of the foregoing described authorities and instrumentalities, a “Governmental Entity”) and approval of such other applications, filings and notices as may be required (the “Other Regulatory Approvals”), (c) the submission and subsequent filing, as applicable, of the Articles of Merger and the articles of merger for the Holding Company Merger with the Commissioner and the North Carolina Secretary of State pursuant to the Bank Act and the NCBCA, (d) the submission and subsequent filing, as applicable, of the articles of merger for the Bank Merger with the Commissioner and the North Carolina Secretary of State pursuant to the Bank Act and the NCBCA, (e) any consents, authorizations, approvals, filings or exemptions in connection with compliance with the applicable provisions of federal and state securities laws, and the rules and regulations thereunder, and any applicable industry self-regulatory organization (“SRO”), or that are required under consumer finance, mortgage banking and other similar laws, and (f) notices or filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), if any, no consents or approvals of or filings or registrations with any Governmental Entity are necessary in connection with the consummation by CB of the First Step Merger or the Holding Company Merger, by Cornerstone Bank of the Bank Merger, or any of the other transactions contemplated by this Agreement. Except for those consents and approvals required from any landlords or lessors under Property Leases or similar agreements for the Leased Properties and for notices that are required to be given to tenants of CB or Cornerstone Bank on the Owned Properties, which required consents, approvals and notices are set forth on Section 3.4 of the CB Disclosure Schedule, no consents or approvals, or notices to, any party to an agreement encumbering the Real Property are necessary in connection with the consummation by CB of the First Step Merger or the Holding Company Merger, by Cornerstone Bank of the Bank Merger, or any of the other transactions contemplated by this Agreement. Except for the consents, approvals, filings and registrations described above in this Section 3.4, no consents or approvals of or filings or registrations with any Governmental Entity or any other Person are necessary in connection with the execution and delivery by CB or Cornerstone Bank of this Agreement.

### 3.5 Reports; Regulatory Matters.

(a) Each of CB and Cornerstone Bank has timely filed (including all applicable extensions) all reports, registrations and statements, together with any amendments required to be made with respect thereto, that it was required to file since June 30, 2014 with (i) the Federal Reserve Board, (ii) the FDIC, (iii) the Commissioner, (iv) any state insurance commission or other state regulatory authority, (v) any foreign regulatory authority, (vi) the Securities and Exchange Commission (“SEC”) and (vii) any SRO (each of the foregoing a “Regulatory Agency” and collectively, “Regulatory Agencies”) and with each other applicable Governmental Entity, and all other reports and statements required to be filed by it since June 30, 2014, including any report or statement required to be filed pursuant to the laws, rules or regulations of the United States, any state, foreign entity or Regulatory Agency or Governmental Entity, and has paid all fees and assessments due and payable in connection therewith. Except as set forth on Section 3.5 of the CB Disclosure Schedule and except for normal examinations conducted by a Regulatory Agency or Governmental Entity in the ordinary course of the business of CB or Cornerstone Bank, since June 30, 2014 no Regulatory Agency or Governmental Entity has initiated or has pending any proceeding, enforcement action or, to the knowledge of CB and Cornerstone Bank, investigation into the business, disclosures or operations of CB or Cornerstone Bank. Each of CB and Cornerstone Bank has fully complied with, and there is no unresolved violation, criticism, or exception by any Regulatory Agency or Governmental Entity with respect to, any report or statement relating to any examinations or inspections of it. Since June 30, 2014, there have been no formal or informal inquiries of CB or Cornerstone Bank by, or disagreements or disputes by CB or Cornerstone Bank with, any Regulatory Agency or Governmental Entity with respect to the business, operations, policies or procedures of CB or Cornerstone Bank, as applicable (other than normal examinations conducted by a Regulatory Agency or Governmental Entity in the ordinary course of business of CB or Cornerstone Bank, as applicable).

(b) Except as disclosed on Section 3.5(b) of the CB Disclosure Schedule, neither CB nor Cornerstone Bank is subject to any cease-and-desist or other order or enforcement action issued by, or a party to any written agreement, consent agreement or memorandum of understanding with, or a party to any commitment letter or similar undertaking to, nor is CB or Cornerstone Bank subject to any order or directive by, or has either of them been ordered to pay any civil money penalty by, or since June 30, 2014 a recipient of any supervisory letter from, nor since June 30, 2014 has it adopted any policies, procedures or board resolutions at the request or suggestion of, any Regulatory Agency or other Governmental Entity that currently restricts in any material respect the conduct of its businesses or that in any material manner relates to its capital adequacy, ability to pay dividends, credit risk management or compliance policies, internal controls, management or the business, other than those of general application that apply to similarly situated, as applicable, bank holding companies, commercial banks or their subsidiaries (each item in this sentence, a “CB Regulatory Agreement”), nor has CB or Cornerstone Bank been advised since June 30, 2014 by any Regulatory Agency or other Governmental Entity that it is considering issuing, initiating, ordering or requesting any such CB Regulatory Agreement.

### 3.6 Financial Statements.

(a) CB has previously provided to Holdco and to Providence Bank (1) the consolidated balance sheets, statements of income, changes in shareholders' equity, and cash flows (including related notes and schedules, if any) of CB for each of the two fiscal years ended December 31, 2016 and 2015 (the "CB Financial Statements") and (2) the report of Cornerstone Bank's management to the Cornerstone Bank Board with respect to Cornerstone Bank's monthly operations and financial condition as of and for the three- and six-month periods ended June 30, 2017, including related notes and schedules, if any ("CB Management Report"). The CB Financial Statements and the CB Management Report (as of the dates thereof and for the periods covered thereby) have been prepared from, and are in accordance with, the books and records of CB and Cornerstone Bank in all material respects. The CB Financial Statements (i) fairly present in all material respects the consolidated results of operations, cash flows, changes in shareholders' equity and financial position of CB for the respective fiscal periods or as of the respective dates therein set forth (subject in the case of unaudited statements to recurring year-end audit adjustments normal in nature and amount), and (ii) have been prepared in accordance with GAAP consistently applied during the periods involved, except, in each case, as indicated in such statements or in the notes thereto. The books and records of CB and Cornerstone Bank have been, and are being, maintained in all material respects in accordance with all applicable legal and accounting requirements and reflect only actual transactions. Cherry Bekaert LLP has served as the independent auditor for CB for all periods presented in the CB Financial Statements; and such firm has not resigned or been dismissed as the independent auditor of CB as a result of or in connection with any disagreements with CB on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(b) Except for those liabilities set forth on Section 3.6 of the CB Disclosure Schedule, neither CB nor Cornerstone Bank has any material liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due), except for (i) those liabilities that are reflected or reserved against on the CB Financial Statements or the CB Management Report (including any notes thereto), (ii) liabilities incurred in the ordinary course of business consistent with past practice since July 1, 2017, or (iii) liabilities incurred since July 1, 2017 in connection with this Agreement and the transactions contemplated hereby.

(c) Since December 31, 2016, (i) neither CB nor, to the knowledge of CB, any director, officer, employee, auditor, accountant or representative of CB or Cornerstone Bank 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 CB or Cornerstone Bank or their internal accounting controls, including any material complaint, allegation, assertion or claim that CB or Cornerstone Bank has engaged in questionable accounting or auditing practices, and (ii) no attorney representing CB or Cornerstone Bank, whether or not employed by CB or Cornerstone Bank, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by CB, Cornerstone Bank or any of their respective officers, directors, employees or agents to the CB Board, the Cornerstone Bank Board or any committee of either or to any director or officer of CB or Cornerstone Bank.

3.7 Broker's Fees. Neither CB or Cornerstone Bank nor any of their respective officers or directors has employed any broker or finder or incurred any liability for any broker's fees, commissions or finder's fees in connection with this Agreement, the Mergers, or related transactions contemplated by this Agreement, other than as set forth on Section 3.7 of the CB Disclosure Schedule.

3.8 Absence of Certain Changes or Events.

(a) Except as set forth on Section 3.8(a) of the CB Disclosure Schedule, since December 31, 2016, no event has occurred that has had or is reasonably likely to have, either individually or in the aggregate with all other events, a Material Adverse Effect on CB or Cornerstone Bank. As used in this Agreement, the term "Material Adverse Effect" means, with respect to Holdco, Providence Bank, CB or Cornerstone Bank, as the case may be, any fact, event, change, condition, development, circumstance or effect that, individually or in the aggregate, (i) is or would be reasonably likely to be material and adverse to the business, assets, liabilities, properties, results of operations, financial condition or management team of such Party and its Subsidiaries taken as a whole (provided, however, that, with respect to this clause (i), a Material Adverse Effect shall not be deemed to include any adverse event, change or effect to the extent arising from (A) changes, after the date hereof, in GAAP or regulatory accounting requirements applicable to banks and their holding companies, generally, (B) changes, after the date hereof, in laws, rules or regulations of general applicability to banks and their holding companies, generally, or interpretations thereof by courts or Governmental Entities, in each case except to the extent such Party is affected in a disproportionate manner as compared to other community banks in the southeastern United States, (C) changes, after the date hereof, in global or national political conditions (including the outbreak of war or acts of terrorism) or in general economic or market conditions, including interest rates, affecting banks or their holding companies generally, in each case except to the extent such Party is affected in a disproportionate manner as compared to other community banks in the southeastern United States or (D) the direct effects of negotiating, entering into and compliance with this Agreement on the operating performance of CB or Cornerstone Bank) or (ii) materially impairs or would be reasonably likely to materially impair the ability of such Party to timely consummate the transactions contemplated by this Agreement.

(b) Except as set forth in Section 3.8(b) of the CB Disclosure Schedule, since December 31, 2016 through and including the date of this Agreement, each of CB and Cornerstone Bank has carried on its business in all material respects in the ordinary course of business consistent with past practice.

(c) Except as set forth in Section 3.8(c) of the CB Disclosure Schedule, since December 31, 2016, neither CB nor Cornerstone Bank has (i) except for (A) normal increases for employees made in the ordinary course of business consistent with past practice or (B) as required by applicable law or pre-existing contractual obligations, increased the wages, salaries, compensation, bonus opportunities (whether annual or long-term, or in the form of cash or property) pension, nonqualified deferred compensation or other fringe benefits or perquisites payable to any current, former or retired executive officer, employee, consultant, independent contractor, other service provider or director from the amount thereof in effect as of December 31, 2016, granted any severance, retirement or termination pay, entered into any contract to make

or grant any severance, retirement or termination pay (in each case, except as required under the terms of agreements or severance plans listed on Section 3.11(a) of the CB Disclosure Schedule, as in effect as of the date hereof), or paid any bonus other than the customary year-end bonuses in amounts consistent with past practice, (ii) granted, amended, accelerated, modified or terminated any stock appreciation rights or options to purchase shares of CB Common Stock, any restricted, performance or fully vested shares of CB Common Stock, any phantom or restricted stock units, or any right to acquire any shares of its capital stock with respect to any current, former or retired executive officer, director, consultant, independent contractor or other service provider or employee, (iii) changed any of its accounting methods, principles or practices or those of its Subsidiaries affecting its assets, liabilities or businesses, including any reserving, renewal or residual method, practice or policy, (iv) suffered any strike, work stoppage, slow-down or other labor disturbance, (v) adopted, amended, modified or terminated any CB Benefit Plan, except as required by applicable laws, or (vi) hired, terminated, promoted or demoted any employee, consultant, independent contractor, executive officer, director or other service provider (other than in its ordinary course of business and consistent with past practice).

### 3.9 Legal Proceedings.

(a) Except as disclosed on Section 3.9(a) of the CB Disclosure Schedule, neither CB nor Cornerstone Bank is a party to any, and there are no pending or, to the knowledge of CB, threatened, legal, administrative, arbitral or other material proceedings, claims, actions or governmental or regulatory investigations of any nature against CB or Cornerstone Bank, including, without limitation any lender liability claims or claims challenging the validity or propriety of the transactions contemplated by this Agreement. None of the proceedings, claims, actions or governmental or regulatory investigations set forth on Section 3.9(a) of the CB Disclosure Schedule would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on CB or Cornerstone Bank, as applicable.

(b) There is no injunction, judgment or regulatory restriction (other than those of general application that apply to similarly situated commercial banks) imposed upon any of CB, Cornerstone Bank or their respective assets.

### 3.10 Taxes and Tax Returns.

(a) Each of CB and Cornerstone Bank has duly and timely filed (including all applicable extensions) all Tax Returns required to be filed by it on or before the date of this Agreement (all such Tax returns being accurate and complete in all material respects and containing all material information required to be contained therein), has paid all Taxes shown thereon as arising or due or owing (whether or not shown on any Tax Return) and has duly paid or made provision for the payment of all material Taxes that have been incurred or are due or claimed to be due from it by federal, state, foreign or local Tax authorities (including, if and to the extent applicable, those due in respect of its properties, income, business, capital stock, deposits, franchises, licenses, sales and payrolls) other than Taxes that are not yet delinquent or are being contested in good faith, have not been finally determined, and have been adequately reserved against. To the knowledge of CB, neither CB nor Cornerstone Bank is subject to any ongoing or unresolved examination or audit by the United States Internal Revenue Service (“IRS”) or any state, local or other Tax agency or authority. There are no material disputes



pending, or claims asserted, for Taxes or assessments upon CB or Cornerstone Bank, as applicable, for which it does not have reserves that are adequate under GAAP. Neither CB nor Cornerstone Bank (A) has received any indication of the pendency of any audit or examination in connection with any Tax Returns with respect to which any applicable statute of limitation has not expired or (B) has any knowledge that, with the passage of time, any such Tax Return could be subject to adjustment; and neither CB nor Cornerstone Bank has executed any waiver or extended the statute of limitations (or been asked to execute a waiver or extend a statute of limitations) with respect to any Tax. No claim has ever been made by a Tax authority in a jurisdiction where CB or Cornerstone Bank does not file Tax Returns that CB or Cornerstone Bank is, or may be, subject to taxation by that jurisdiction. There are no liens for any material Taxes (other than for Taxes not yet due and payable) filed of record on any of the assets of CB or Cornerstone Bank. Except as set forth on Section 3.10(a) of the CB Disclosure Schedule, neither CB nor Cornerstone Bank is a party to or bound by any Tax-sharing, Tax-allocation or Tax-indemnification agreement or arrangement. Within the past five years, neither CB nor Cornerstone Bank has been a “distributing corporation” or a “controlled corporation” in a distribution intended to qualify under Section 355(a) of the Code. Neither CB nor Cornerstone Bank is required to include in income any adjustment pursuant to Section 481(a) of the Code for any Tax period before the Effective Time, no such adjustment has been proposed by the IRS, and no pending request for permission to change any accounting method has been submitted to the IRS by CB or Cornerstone Bank.

(b) CB and Cornerstone Bank have disclosed on their 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.

(c) Neither CB nor Cornerstone Bank has made any payment or has been or is a party to any contract, agreement, plan or other arrangement that, individually or collectively, could give rise to the payment of any amount for which all or any part of a deduction would be disallowed by reason of Sections 162(m), 404, or 280G of the Code or that would be subject to withholding under Sections 409A, 457A or 4999 of the Code (whether directly under any such Code Section or pursuant to Code Section 3401).

(d) As used in this Agreement, the term “Tax” or “Taxes” means (i) any and all federal, state, local and foreign income, bank, estimated, excise, gross receipts, gross income, ad valorem, profits, gains, property, escheat, unclaimed property, capital, sales, transfer, use, payroll, employment, severance, withholding, duties, intangibles, franchise, backup-withholding, value-added and other taxes, charges, levies or like assessments in the nature of a tax imposed by a governmental authority or jurisdiction together with all penalties and additions to tax and interest thereon and (ii) any liability for taxes described in clause (i) above under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law).

(e) As used in this Agreement, the term “Tax Return” means a report, return or other information (including any amendments) filed with or required to be supplied to a governmental authority with respect to Taxes, including, where permitted or required, combined or consolidated returns for any group of entities that includes CB.

### 3.11 Employee Matters.

(a) Section 3.11(a) of the CB Disclosure Schedule sets forth a true, complete and correct list of each “employee benefit plan” as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended and including the regulations promulgated thereunder (“ERISA”), whether or not written or unwritten or subject to ERISA, as well as each employee or director benefit or compensation plan, arrangement or agreement (whether written or unwritten) and each employment, consulting, bonus, supplemental income, supplemental retirement, collective-bargaining, incentive or deferred compensation, vacation, stock purchase, stock option or other equity-based, severance, termination, retention, change-in-control, profit-sharing, fringe benefit, workers’ compensation, voluntary employees’ beneficiary association, health, welfare, accident, sickness, death benefit, hospitalization, insurance, personnel policy, disability benefit or other similar plan, program, agreement, arrangement or commitment (whether written or unwritten) for the benefit of any current, former or retired employee, consultant, independent contractor, other service provider or director of CB or any of its ERISA Affiliates (as defined herein) entered into, maintained or contributed to by CB or any of its ERISA Affiliates or to which CB or any of its ERISA Affiliates is obligated to contribute (such plans, programs, agreements, arrangements and commitments, collectively, the “CB Benefit Plans”). For purposes of this Agreement, the term “ERISA Affiliate” means any entity that is a member of (i) a controlled group of corporations (as defined in Section 414(b) of the Code), (ii) a group of trades or businesses under common control (as defined in Section 414(c) of the Code), (iii) an affiliated service group (as defined under Section 414(m) of the Code or the Treasury Regulations under Section 414(o) of the Code) or (iv) a “controlled group” within the meaning of Section 4001 of ERISA, any of which includes CB or Cornerstone Bank. No other CB Benefit Plan exists.

(b) CB has previously made available to Holdco and to Providence Bank true, complete and correct copies of the following (as applicable): (i) the written document evidencing any such CB Benefit Plans or, with respect to any such plan that is not in writing, a written description thereof; (ii) the summary plan description; (iii) any related trust agreements, insurance contracts or documents of any other funding arrangements; (iv) all amendments, modifications or supplements to any such document; (v) the two most recent actuarial reports; (vi) the most recent determination letter from the IRS; (vii) the three most recent Forms 5500 required to have been filed with the IRS, including all schedules thereto; (viii) any notices to or from the IRS or any office or representative of the Department of Labor or any other Governmental Entity relating to any compliance issues in respect of any such CB Benefit Plan; and (ix) a list of each person who has options to purchase shares of CB Common Stock or has units or other awards outstanding under any stock-option or other equity-based plan, program or arrangement sponsored by CB, noting for each person the number of options, units and other awards available and the strike price, if any, associated therewith. Section 3.11(b) of the CB Disclosure Schedule sets forth the accrued liability for any such plans, programs and arrangements as of June 30, 2017.

(c) With respect to each CB Benefit Plan, and except as disclosed on Section 3.11(c) of the CB Disclosure Schedule:

(i) each CB Benefit Plan is being and has been administered in all material respects in accordance with ERISA, the Code and all other applicable laws and in all material respects in accordance with its governing documents, and all material obligations, whether arising by operation of law or by contract, required to be performed with respect to each CB Benefit Plan have been timely performed, and there have been no material defaults, omissions or violations by any party with respect to any CB Benefit Plan;

(ii) each CB Benefit Plan that is intended to be “qualified” under Section 401 and/or 409 of the Code is so qualified and has either received a favorable determination letter from the IRS to such effect or such CB Benefit Plan is covered by a letter from the IRS to the same effect, and, to the knowledge of CB, no fact, circumstance or event has occurred since the date of such letter or exists that would reasonably be expected to adversely affect the qualified status of any such CB Benefit Plan;

(iii) with respect to each CB Benefit Plan that is intended to be “qualified” under Section 401 and/or 409 of the Code either an application for a new determination letter (if applicable) was filed by the end of such CB Benefit Plan’s applicable remedial amendment cycle as determined under IRS Revenue Procedure 2007-44 or the deadline for filing such an application has not yet arrived and all requirements for relying on such extended filing date have been satisfied;

(iv) each CB Benefit Plan that is an “employee pension benefit plan” as defined in Section 3(2)(A) of ERISA and is not qualified under Code Section 401(a) is exempt from Part 2, 3 and 4 of Title I of ERISA as an unfunded plan that is maintained primarily for the purpose of providing deferred compensation or life insurance for a select group of management or highly compensated employees, pursuant to Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, and for each such plan Section 3.11(c)(iv) of the CB Disclosure Schedule sets forth (A) a list of assets that are maintained or used to informally fund such plan, (B) an analysis of the emerging liabilities of any supplemental executive retirement plans (the “SERPs”) and (C) an analysis of the cash surrender value of any split-dollar insurance policies held pursuant to the SERPs. Any trust agreement supporting such plan has been provided as described in Section 3.11(b)(iii);

(v) no claim, lawsuit, arbitration or other action has been threatened, asserted, instituted or, to the knowledge of CB or any ERISA Affiliate, is anticipated against any of the CB Benefit Plans (other than routine claims for benefits and appeals of such claims), any trustee or fiduciaries thereof, CB, any ERISA Affiliate, any director, officer or employee thereof, or any of the assets of any trust of any of the CB Benefit Plans;

(vi) all contributions, premiums and other payments required to be made with respect to any CB Benefit Plan have been made on or before their due dates under applicable law and the terms of such CB Benefit Plan, and with respect to any such contributions, premiums or other payments required to be made with respect to any CB Benefit Plan that are not yet due, to the extent required by GAAP, adequate reserves are reflected on the consolidated balance sheet of CB for the fiscal year ended December 31, 2016 or liability therefor was incurred in the ordinary course of business consistent with past practice since December 31, 2016;

(vii) no CB Benefit Plan is under, and CB (including any ERISA Affiliate thereof) has not received any notice of, an audit or investigation by the IRS, Department of Labor or any other Governmental Entity and no such completed audit, if any, has resulted in the imposition of any Tax or penalty;

(viii) no CB Benefit Plan is a self-funded or self-insured arrangement, and, with respect to each CB Benefit Plan that is funded in whole or in part through an insurance policy, neither CB nor any ERISA Affiliate has any liability in the nature of retroactive rate adjustment, loss-sharing arrangement or other actual or contingent liability arising wholly or partially out of events occurring on or before the date of this Agreement or is reasonably expected to have such liability with respect to periods through the Effective Time;

(ix) all reports and disclosures relating to each CB Benefit Plan required to be filed with or furnished to Governmental Entities (including the IRS, the Pension Benefit Guaranty Corporation and the Department of Labor), CB Benefit Plan participants or beneficiaries have been filed or furnished in all material respects in a timely manner in accordance with applicable law;

(x) neither the execution, delivery or performance of this Agreement by CB and Cornerstone Bank nor the consummation of the transactions contemplated hereby (either alone or in connection with any other event) will (A) require CB to make a larger contribution to, or pay greater benefits or provide other rights under, any CB Benefit Plan than it otherwise would, whether or not some other subsequent action or event would be required to cause such payment or provision to be triggered, (B) create or give rise to any additional vested rights or service credits under any CB Benefit Plan or (C) conflict with the terms of any CB Benefit Plan;

(xi) all obligations of CB and ERISA Affiliate and each fiduciary under each CB Benefit Plan, whether arising by operation of law or by contract, required to be performed under Section 4980B of the Code, as amended, and Sections 601 through 609 of ERISA, or similar state law ("COBRA"), including such obligations that may arise by virtue of the transactions contemplated by this Agreement, have been or will be timely performed in all material respects;

(xii) to the knowledge of CB, CB and each ERISA Affiliate, as applicable, has maintained in all material respects all employee data necessary to administer each CB Benefit Plan, including all data required to be maintained under Section 107 of ERISA, and such data are true and correct and are maintained in usable form; and

(xiii) except as disclosed on Section 3.11(c)(xiii) of the CB Disclosure Schedule, no CB Benefit Plan provides for any gross-up payment associated with any Taxes.

(d) No CB Benefit Plan is subject to Section 412 of the Code or Section 302 or Title IV of ERISA or is a multiemployer plan or multiple employer plan within the meaning of Sections 4001(a)(3) or 4063/4064 of ERISA, respectively, and neither CB nor any of its ERISA Affiliates has ever maintained, contributed to, sponsored or had an obligation to contribute to any such plan. Neither CB nor any of its ERISA Affiliates has incurred, either

directly or indirectly (including as a result of any indemnification or joint and several liability obligation), any liability pursuant to Title I or IV of ERISA or the penalty tax, excise tax or joint and several liability provisions of the Code relating to employee benefit plans, in each case, with respect to the CB Benefit Plans and no event, transaction or condition has occurred or exists that could reasonably be expected to result in any such liability to CB or any ERISA Affiliates.

(e) Except as disclosed on Section 3.11(e) of the CB Disclosure Schedule, neither the execution or delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement will, either alone or in conjunction with any other event, (i) result in any payment or benefit becoming due or payable, or required to be provided, to any current, former or retired director, executive officer, employee, consultant, independent contractor or other service provider of CB or any of its ERISA Affiliates, (ii) increase the amount or value of any benefit or compensation otherwise payable or required to be provided to any such director, employee or independent contractor, (iii) result in the acceleration of the time of payment, vesting or funding of any such benefit or compensation or (iv) result in any amount for which a deduction would be disallowed by reason of Section 280G of the Code or that would be subject to the sanctions imposed under Section 4999 of the Code.

(f) To the knowledge of CB, neither CB, Cornerstone Bank, any other “disqualified person” (as defined in Section 4975 of the Code) nor any “party-in-interest” (as defined in Section 3(14) of ERISA) or any trustee or administrator of any CB Benefit Plan has engaged in a nonexempt “prohibited transaction,” as defined in Section 4975 of the Code and Section 406 of ERISA, in each case, such as could reasonably be expected to give rise to any Tax or penalty under Section 4975 of the Code or Section 406 of ERISA. To the knowledge of CB, all “fiduciaries,” as defined in Section 3(21) of ERISA, with respect to the CB Benefit Plans have complied in all respects with the requirements of Section 404 of ERISA. Except as disclosed on Section 3.11(f) of the CB Disclosure Schedule, CB and its ERISA Affiliates have in effect fiduciary liability insurance covering each fiduciary of the CB Benefit Plans.

(g) No payment made or to be made in respect of any employee or former employee of CB or Cornerstone Bank would reasonably be expected to be nondeductible by reason of Section 162(m) of the Code.

(h) With respect to each of CB and Cornerstone Bank:

(i) It is not a party to or bound by any labor or collective bargaining agreement and to its knowledge there are no organizational campaigns, petitions or other unionization activities seeking recognition of a collective bargaining unit with respect to, or otherwise attempting to represent, any of its employees. There are no labor-related controversies, strikes, slowdowns, walkouts or other work stoppages pending or, to its knowledge, threatened and it has not experienced any such labor-related controversy, strike, slowdown, walkout or other work stoppage within the past three years.

(ii) It is not a party to, or otherwise bound by, any consent decree or conciliation agreement with, or citation, injunction or order by, any Governmental Entity relating to its employees or employment practices.

(iii) It is in compliance in all respects with all applicable laws, statutes, orders, rules and regulations relating to labor, employment, wages, overtime pay, workers' compensation, employee classification, immigration, nondiscrimination, affirmative action, plant closings, mass layoffs, termination of employment or similar matters and has not engaged in any unfair labor practices or other prohibited practices related to employees, except where the failure to comply would not, either individually or in the aggregate, have a Material Adverse Effect on it.

(iv) Except as set forth on Section 3.11(h)(iv) of the CB Disclosure Schedule, it has no workers' compensation liability, experience or matter outside the ordinary course of business.

(v) To its knowledge, none of its executive officers (A) has any present intention to terminate his or her employment with it or (B) is a party to any noncompetition, noninterference, confidentiality, proprietary rights or other such agreement with a third party that would, if complied with, materially interfere with the performance of such executive officer's current duties.

(vi) Section 3.11(h)(vi) of the CB Disclosure Schedule sets forth its projected maximum aggregate incentive compensation pool for 2017.

(i) Section 3.11(i) of the CB Disclosure Schedule sets forth a true, complete and correct list of all noncompetition, nonsolicitation, noninterference, nondisclosure and similar agreements between each of CB and Cornerstone Bank and any of its employees, directors or independent contractors (including, for this purpose, any former employees, directors or independent contractors to the extent such agreements are currently in effect), copies of which have been made available to Holdco and to Providence Bank. Each of the agreements set forth on Section 3.11(i) of the CB Disclosure Schedule is, to the knowledge of CB and Cornerstone Bank, valid and binding and in full force and effect.

(j) Except as disclosed on Section 3.11(j) of the CB Disclosure Schedule, neither CB nor Cornerstone Bank (i) provides health or welfare benefits for any retired or former employee and (ii) is obligated to provide health or welfare benefits to any of its active employees after their retirement or other termination of service, unless required to do so under COBRA.

(k) Neither CB nor any of its ERISA Affiliates maintains any employee benefit plan or arrangement that is governed by the laws of any government outside of the United States.

(l) Any individual who performs services for CB or Cornerstone Bank and who is not treated as an employee for federal income Tax purposes by CB or Cornerstone Bank is not an employee under applicable law or for any purpose including for Tax withholding purposes or CB Benefit Plan purposes.

(m) (i) Each CB Benefit Plan that is a "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code), including each award thereunder, has been operated since the adoption of such CB Benefit Plan in good faith compliance with the applicable provisions of Section 409A of the Code and the Treasury Regulations and other

official guidance issued thereunder (collectively, “Section 409A”) and has been since the earlier of its adoption or January 1, 2009, in documentary compliance with the applicable provisions of Section 409A; (ii) neither CB nor Cornerstone Bank (A) has been required to report to any Governmental Entity or authority any corrections made or Taxes due as a result of a failure to comply with Section 409A and (B) has any indemnity or gross-up obligation for any Taxes or interest imposed or accelerated under Code Section 409A or Code Sections 457A or 4999 (other than as disclosed on the CB Disclosure Schedule); (iii) nothing has occurred, whether by action or failure to act, or is reasonably expected or intended to occur, that would subject an individual having rights under any such CB Benefit Plan to accelerated Tax as a result of Section 409A or a Tax imposed under Section 409A; and (iv) for any CB Benefit Plan that is not intended to be subject to Section 409A because it is not a nonqualified deferred compensation plan under Treasury Regulations Sections 1.409A-1(a)(2) through 1.409A-1(a)(5), or due to the application of Treasury Regulations Section 1.409A-1(b), all the conditions required to retain such treatment remain in effect and are not reasonably expected to change so as to subject such CB Benefit Plan to Section 409A.

### 3.12 Compliance with Applicable Law.

(a) Each of CB and Cornerstone Bank holds all material licenses, franchises, permits and authorizations necessary for the lawful conduct of its business under and pursuant to each, and have complied in all material respects with and is not in default in any material respect under any, applicable law, statute, order, rule, regulation, policy or guideline of any Governmental Entity relating to it. Other than in material conformity with applicable law, neither CB nor Cornerstone Bank acts as a fiduciary for any Person, or administer any account for which it acts as a fiduciary, including as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor.

(b) Section 3.12(b) of the CB Disclosure Schedule sets forth, as of the date hereof, a schedule of all officers and directors of CB and Cornerstone Bank, and all entities controlled by such officers and directors, who have outstanding loans from Cornerstone Bank, and there has been no default on, or forgiveness or waiver of, in whole or in part, any such loan during the three years immediately preceding the date hereof.

### 3.13 Certain Contracts.

(a) Except as disclosed on Section 3.13(a) of the CB Disclosure Schedule, neither CB nor Cornerstone Bank is a party to or bound by any contract, arrangement, commitment or understanding (whether written or oral) (i) with respect to the employment of any directors, officers, employees, consultants, independent contractors or other service providers other than in the ordinary course of business consistent with past practice, (ii) that, upon execution of this Agreement or consummation or shareholder approval of the transactions contemplated by this Agreement, will (either alone or upon the occurrence of any additional acts or events) result in any payment or benefits (whether of severance pay or otherwise) becoming due from Holdco, Merger Sub, Providence Bank, CB, Cornerstone Bank, the Surviving Corporation or the Surviving Bank, or any of their respective Subsidiaries, to any current, former or retired officer, employee, director, consultant, independent contractor or other service provider of CB or Cornerstone Bank, (iii) that is a contract material to the business of CB to be

performed after the date of this Agreement, (iv) that materially restricts the conduct of any line of business, or the area in which such business is conducted, by CB or Cornerstone Bank or, to the knowledge of CB, upon consummation of the Mergers will materially restrict the ability of the Surviving Corporation, on the one hand, to engage in any business in which a North Carolina bank holding company may lawfully engage or the Surviving Bank, on the other hand, to engage in any line of business in which a North Carolina commercial bank may lawfully engage, (v) with or to a labor union or guild (including any collective bargaining agreement) or (vi) that is a stock option plan, stock appreciation rights plan, restricted stock plan, performance stock, phantom or restricted stock units, stock purchase plan, employee stock ownership plan or benefits plan under which any of the benefits will be increased, or the vesting of the benefits of which will be accelerated, by the execution of this Agreement, the occurrence of any shareholder approval or the consummation of any of the transactions contemplated by this Agreement, or the value of any of the benefits under which will be calculated on the basis of or affected by any of the transactions contemplated by this Agreement. Each contract, arrangement, commitment or understanding of the type described in this Section 3.13(a), whether or not set forth in the CB Disclosure Schedule, is referred to as a “CB Contract,” and neither CB nor Cornerstone Bank has knowledge of, and has not received notice of, any material violation of any CB Contract by any of the other parties thereto.

(b) (i) Each CB Contract is valid and binding on CB or Cornerstone Bank, as applicable, and is in full force and effect, (ii) CB or Cornerstone Bank, as applicable, has in all material respects performed all obligations required to be performed by it to date under each CB Contract and (iii) except as described on Section 3.13(b) of the CB Disclosure Schedule, no event or condition exists that constitutes or, after notice or lapse of time or both, will constitute, a material default on the part of CB or Cornerstone Bank, as applicable, under any such CB Contract.

### 3.14 Risk Management Instruments.

(a) “Derivative Transactions” means any swap transaction, structured repurchase 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, prices, values, or other financial or nonfinancial assets, credit-related events or conditions or any indexes, or any other similar transaction 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 such transactions.

(b) All Derivative Transactions, whether entered into for the account of CB or Cornerstone Bank or for the account of a customer of Cornerstone Bank, were entered into in the ordinary course of business consistent with past practice and in accordance with prudent banking practice and applicable laws, rules, regulations and policies of any Regulatory Authority and in accordance with the investment, securities, commodities, risk management and other policies, practices and procedures employed by CB or Cornerstone Bank, as applicable, and with counterparties believed at the time to be financially responsible and able to understand (either alone or in consultation with their advisers) and to bear the risks of such Derivative Transactions.



All of such Derivative Transactions are legal, valid and binding obligations of CB or Cornerstone Bank, as applicable, enforceable against it in accordance with their terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization, arrangement, liquidation, subrogation or similar laws affecting the rights of creditors generally and subject to general principles of equity), and are in full force and effect. Each of CB and Cornerstone Bank has duly performed its obligations under the Derivative Transactions to the extent that such obligations to perform have accrued and, to the knowledge of CB and Cornerstone Bank, as applicable, there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder, which would reasonably be expected to have a Material Adverse Effect on CB or Cornerstone Bank.

### 3.15 Investment Securities and Commodities.

(a) Except as set forth on Section 3.15 of the CB Disclosure Schedule or as would not reasonably be expected to have a Material Adverse Effect on CB or Cornerstone Bank, as applicable, each of CB and Cornerstone Bank has good title to all securities and commodities owned by it (except those sold under repurchase agreements or held in any fiduciary or agency capacity), free and clear of any Liens, except to the extent such securities or commodities are pledged in the ordinary course of business to secure obligations of CB or Cornerstone Bank, as applicable. Such securities and commodities are valued on the books of CB or Cornerstone Bank in accordance with GAAP in all material respects.

(b) Each of CB and Cornerstone Bank has acted in compliance in all material respects with investment, securities, commodities, risk management and other policies, practices and procedures (the “Policies, Practices and Procedures”) that it believes are prudent and reasonable in the context of its businesses. Before the date hereof, each of CB and Cornerstone Bank has made available to Holdco and to Providence Bank in writing its material Policies, Practices and Procedures.

### 3.16 Loan Portfolio.

(a) Section 3.16(a) of the CB Disclosure Schedule sets forth, as of June 30, 2017 (i) the aggregate outstanding principal amount of all loan agreements, notes or borrowing arrangements (including leases, credit enhancements, commitments, guarantees and interest-bearing assets) (collectively, “Loans”) payable to Cornerstone Bank, other than “nonaccrual” Loans, (ii) the aggregate outstanding principal amount of all “nonaccrual” Loans, (iii) a summary of all Loans designated as of such date by Cornerstone Bank as “Special Mention”, “Substandard”, “Doubtful”, “Loss” or words of similar import by category of Loan (e.g., commercial, consumer, etc.), together with the aggregate principal amount of such Loans by category and the amount of specific reserves with respect to each such category of Loans and (iv) each asset of Cornerstone Bank that is classified as “Other Real Estate Owned” and the book value thereof.

(b) To the knowledge of Cornerstone Bank, each 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 and security interests that have been perfected, (iii) where required by applicable law, has been based on an appraisal that has

been provided to Holdco and to Providence Bank and (iv) is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization, arrangement, liquidation, subrogation or similar laws affecting the rights of creditors generally subject to general principles of equity). All Loans originated by Cornerstone Bank, and all such Loans purchased by Cornerstone Bank, were made or purchased in accordance with customary lending standards. All such Loans (and any related guarantees) and payments due thereunder are, and on the Closing Date will be, free and clear of any Lien, and Cornerstone Bank has complied in all material respects, and on the Closing Date will have complied in all material respects, with all laws and regulations relating to such Loans.

(c) Since December 31, 2016, Cornerstone Bank has not incurred any unusual or extraordinary loan losses that are material to Cornerstone Bank and in light of its historical loan loss experience and its management's analysis of the quality and performance of its loan portfolio, the reserves for loan losses shown on the CB Financial Statements and the CB Management Report were, on the respective dates thereof, adequate in all respects under and, with respect to the CB Financial Statements, in accordance with the requirements of GAAP and applicable regulatory accounting practices, in each case consistently applied, to provide for probable loan losses as of such date, and were in accordance with the safety and soundness standards administered by, and the practices, procedures, requests and requirements of, the applicable Regulatory Agency.

3.17 Property. CB or Cornerstone Bank (a) has fee simple title to the real properties reflected on Section 3.17 of the CB Disclosure Schedule (the "Owned Properties"), free and clear of all liens, pledges, charges, security interests and similar encumbrances of any nature whatsoever ("Liens"), except (i) statutory Liens securing payments not yet due, (ii) Liens for real property taxes not yet delinquent, (iii) easements, rights of way and other similar encumbrances and matters of record that, to the knowledge of CB and Cornerstone Bank, do not materially and adversely affect the use of the properties or assets subject thereto or affected thereby as used by CB or Cornerstone Bank, as applicable, on the date hereof or otherwise materially impair business operations at such properties, as conducted by CB or Cornerstone Bank, as applicable, on the date hereof and (iv) such imperfections or irregularities of title or Liens as, to the actual knowledge of CB and Cornerstone Bank, do not materially affect the use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties as used by CB or Cornerstone Bank, as applicable, on the date hereof (collectively, "Permitted Encumbrances"), and (b) is the lessee of all real property leasehold estates reflected on Section 3.17 of the CB Disclosure Schedule (the "Leased Properties" and, collectively with the Owned Properties, the "Real Property"), free and clear of all Liens of any nature whatsoever encumbering the leasehold estate therein of CB or Cornerstone Bank, as applicable, except for Permitted Encumbrances, and is in possession of the properties purported to be leased thereunder, and each such lease is valid without default thereunder by CB or Cornerstone Bank, or, to CB's or Cornerstone Bank's knowledge, the lessor. To the knowledge of CB and Cornerstone Bank, the Real Property is in material compliance with, and neither CB nor Cornerstone Bank has received any notice of any violation of, applicable zoning laws and building codes regarding the Real Property and the building and improvements located thereon. To the knowledge of CB and Cornerstone Bank, the buildings and improvements located on the Real Property are in good operating condition and in a state of good working order, ordinary

wear and tear and casualty excepted. There are no pending or, to the knowledge of CB or Cornerstone Bank, threatened condemnation proceedings against the Real Property. To the knowledge of CB or Cornerstone Bank, CB or Cornerstone Bank, as applicable, are in material compliance with all applicable health and safety related requirements for the Real Properties, including those under the Americans with Disabilities Act of 1990 and the Occupational Health and Safety Act of 1970.

Each of CB and Cornerstone Bank currently maintains insurance on all its real property, including the Owned Properties, in amounts, scope and coverage reasonably necessary for its operations and, with respect to the Leased Properties, in compliance with its obligations under the leases for the Leased Properties. Neither CB nor Cornerstone Bank has received any notice of termination, nonrenewal or material premium adjustment for such policies.

3.18 Insurance. Each of CB and Cornerstone Bank is insured with reputable insurers against such risks and in such amounts as constitute reasonably adequate coverage against all risks customarily insured against by banking institutions of comparable size and operations. Each of CB and Cornerstone Bank has a true and complete list of all insurance policies applicable to its business or that are otherwise maintained by or for it (the “CB Policies”) and has made true and complete copies of all such CB Policies available to Holdco and to Providence Bank. Except as set forth on Section 3.18 of the CB Disclosure Schedule, there is no claim for coverage by CB or Cornerstone Bank pending under any of such CB Policies as to which coverage has been questioned, denied or disputed by the underwriters of such CB Policies or in respect of which such underwriters have reserved their rights. Each CB Policy is in full force and effect and all premiums payable by CB or Cornerstone Bank have been timely paid. To the knowledge of CB and Cornerstone Bank, neither CB nor Cornerstone Bank has received written notice of any threatened termination of, material premium increase with respect to, lapse of coverage under, or material alteration of coverage under any of such CB Policies.

3.19 Intellectual Property. Each of CB and Cornerstone Bank own, or is licensed to use (in each case, free and clear of any Liens), all Intellectual Property used in or necessary for the conduct of its business as currently conducted, and all license fees in connection with such Intellectual Property have been paid. The use of such Intellectual Property by CB or Cornerstone Bank, as applicable, does not, to the knowledge of CB or Cornerstone Bank, infringe on or otherwise violate the rights of any Person and is in accordance with any applicable license pursuant to which CB or Cornerstone Bank acquired the right to use any Intellectual Property. To the knowledge of CB and Cornerstone Bank, no Person is challenging, infringing on or otherwise violating any right of CB or Cornerstone Bank, as applicable, with respect to any Intellectual Property owned by and/or licensed to it. Neither CB nor Cornerstone Bank has received any written notice of any pending claim with respect to any Intellectual Property used by it and, to the knowledge of CB and Cornerstone Bank, no Intellectual Property owned and/or licensed by it is being used or enforced in a manner that would result in the abandonment, cancellation or unenforceability of such Intellectual Property. For purposes of this Agreement, “Intellectual Property” means trademarks, service marks, brand names, certification marks, trade dress and other indications of origin, the goodwill associated with the foregoing and registrations in any jurisdiction of, and applications in any jurisdiction to register, the foregoing, including any extension, modification or renewal of any such registration or application; inventions,

discoveries and ideas, whether patentable or not, in any jurisdiction; patents, applications for patents (including divisions, continuations, continuations in part and renewal applications), and any renewals, extensions or reissues thereof, in any jurisdiction; nonpublic information, trade secrets and confidential information and rights in any jurisdiction to limit the use or disclosure thereof by any Person; writings and other works, whether copyrightable or not, in any jurisdiction; and registrations or applications for registration of copyrights in any jurisdiction, and any renewals or extensions thereof; and any similar intellectual property or proprietary rights.

3.20 Environmental Liability. There are no legal, administrative, arbitral or other proceedings, claims, actions, causes of action, orders, assessments (including penalty assessments) or notices of any kind with respect to any environmental, health or safety matters or any private or governmental environmental, health or safety investigations or remediation activities of any nature seeking to impose, or that are reasonably likely to result in, any material liability or obligation of CB or Cornerstone Bank arising under common law or under any local, state or federal environmental, health or safety statute, regulation or ordinance, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (“CERCLA”), pending or, to the knowledge of CB or Cornerstone Bank, threatened against CB or Cornerstone Bank. To the knowledge of CB and Cornerstone Bank, there is no reasonable basis for, or circumstances that are reasonably likely to give rise to, any such proceeding, claim, action, investigation or remediation by any Governmental Entity or any third party that would give rise to any material liability or obligation on the part of CB or Cornerstone Bank. Neither CB nor Cornerstone Bank is subject to any agreement, order, judgment, decree, letter or memorandum by or with any Governmental Entity or third party imposing any liability or obligation with respect to any of the foregoing. To the knowledge of CB and Cornerstone Bank, each of CB and Cornerstone Bank and (except as set forth in written third-party environmental reports included in the relevant loan documentation regarding real property securing a Loan made in the ordinary course of business to a third party that is not CB, Cornerstone Bank or an affiliate of either of them) any property in which it holds a security interest, is in material compliance with all local, state or federal environmental, health or safety Laws, including CERCLA. Notwithstanding any other provision of this Agreement, the representations and warranties in this Section 3.20 constitute the sole representations and warranties of CB and Cornerstone Bank with respect to environmental matters, including but not limited to the compliance of CB, Cornerstone Bank, any Leased Properties or any Owned Properties with any law intended for the protection of human health and/or the environment.

3.21 Leases. Section 3.21 of the CB Disclosure Schedule sets forth (a) a list of each personal property lease involving annual payments in excess of \$50,000 to which CB or Cornerstone Bank is a party and (b) a list of each parcel of real property leased by CB or Cornerstone Bank together with the current annual rent (each, a “Property Lease”). Each Property Lease is valid and binding on CB or Cornerstone Bank and is in full force and effect. CB or Cornerstone Bank has performed, in all material respects, all obligations required to be performed by it to date under each Property Lease. Neither CB nor Cornerstone Bank is in material default under any Property Lease.

3.22 Privacy of Customer Information. Cornerstone Bank owns or otherwise has valid rights to use and transfer to Providence Bank all individually identifiable personal information

(“IPI”) relating to customers, former customers and prospective customers that will be transferred to Providence Bank pursuant to this Agreement and the other transactions contemplated hereby. For purposes of this Section 3.22, “IPI” shall include any “nonpublic personal information,” as such term is defined in the Gramm-Leach-Bliley Act of 1999 (the “Gramm-Leach-Bliley Act”). Cornerstone Bank has no reason to believe that any facts or circumstances exist, which would cause the collection and use of such IPI by Cornerstone Bank and the transfer of such IPI to Providence Bank as contemplated by this Agreement not to comply with the Fair Credit Reporting Act of 1970, as amended (the “Fair Credit Reporting Act”), the Gramm-Leach-Bliley Act and all other applicable state and federal privacy laws. In accordance with the requirements of the Gramm-Leach-Bliley Act, and the regulations promulgated thereunder, Cornerstone Bank (i) maintains the security and confidentiality of customer records and information; (ii) protects against any anticipated threats or hazards to the security or integrity of such records; and (iii) protects against unauthorized access to or use of such records or information, which could result in substantial harm or inconvenience to any customer. For purposes of this Agreement, “Security Breach” means any event that creates a legal duty to notify affected individuals, regulators, or other organizations or persons pursuant to a state or federal law, regulation, or regulatory guidance addressing data security breach notification, such as N.C. Gen. Stat. § 75-65 and the Interagency Guidelines Establishing Information Security Standards. Since December 31, 2016, Cornerstone Bank has not experienced or reported an event that constitutes a Security Breach.

3.23 Bank Secrecy Act; Patriot Act; Money Laundering. Cornerstone Bank has no reason to believe that any facts or circumstances exist which would cause it to be deemed to be operating in violation in any material respect of the Bank Secrecy Act of 1970, as amended and its implementing regulations (31 C.F.R. Part 1010) (the “Bank Secrecy Act”), the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as amended, and the regulations promulgated thereunder (the “Patriot Act”), any order issued with respect to anti-money laundering by the United States Department of the Treasury’s Office of Foreign Assets Control, or any other applicable anti-money laundering law. Furthermore, the Cornerstone Bank Board has adopted and Cornerstone 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 Entity and that meets the requirements of Sections 352 and 326 of the Patriot Act.

3.24 CRA Compliance. Cornerstone Bank has not received any notice of non-compliance with the applicable provisions of the Community Reinvestment Act and the regulations promulgated thereunder. As of the date hereof, Cornerstone Bank’s most recent examination rating under the CRA was “satisfactory” or better. Cornerstone Bank knows of no fact or circumstance or set of facts or circumstances which would be reasonably likely to cause Cornerstone Bank to receive any notice of non-compliance with such provisions of the CRA or cause the CRA rating of Cornerstone Bank to decrease below the “satisfactory” level.

3.25 Securitizations. Neither CB nor Cornerstone Bank is a party to any agreement securitizing any of its assets.

3.26 Approvals. CB knows of no reason why all regulatory approvals from any Governmental Entity required for the consummation of the transactions contemplated by this Agreement should not be obtained on a timely basis.

3.27 Opinion. Before the execution of this Agreement, the CB Board has received an opinion from Smith Capital, Inc., 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 to the shareholders of CB from a financial point of view. Such opinion has not been amended or rescinded as of the date of this Agreement.

3.28 Disaster Recovery and Business Continuity. Cornerstone Bank has developed and implemented a contingency planning program to evaluate the impact of significant events that may adversely affect Cornerstone Bank's customers, assets, or employees. To the knowledge of CB and Cornerstone Bank, such program ensures that Cornerstone Bank can recover its mission critical functions, and complies with the requirements of the Federal Financial Institutions Examination Council ("FFIEC"), the SEC, and the FDIC.

3.29 CB Information. The information relating to CB and Cornerstone Bank that is provided by CB or its representatives for inclusion in a proxy statement relating to the First Step Merger and to the CB Shareholder Meeting to be held in connection with this Agreement and the transactions contemplated by this Agreement (the "CB Proxy Statement") or in any application, notification or other document filed with any other Regulatory Agency or other Governmental Entity in connection with the transactions contemplated by this Agreement, will not 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 in which they are made, not misleading.

3.30 No Other Representations or Warranties.

(a) Except for the representations and warranties made by CB and Cornerstone Bank in this Article III, inclusive of the Sections of the CB Disclosure Schedule referenced in this Article III, none of CB, Cornerstone Bank nor any other Person makes any express or implied representation or warranty with respect to CB, Cornerstone Bank, or their respective businesses, operations, assets, liabilities, conditions (financial or otherwise) or prospects, and CB and Cornerstone Bank hereby disclaim any such other representations or warranties. In particular, without limiting the foregoing disclaimer, none of CB, Cornerstone Bank nor any other Person makes or has made any representation or warranty to Holdco or to Providence Bank or any of their respective affiliates or representatives with respect to (i) any financial projection, forecast, estimate, budget or prospective information relating to CB, Cornerstone Bank or their respective businesses, or (ii) except for the representations and warranties made by CB and Cornerstone Bank in this Article III, inclusive of the Sections of the CB Disclosure Schedule referenced in this Article III, any oral or written information presented to Holdco or to Providence Bank or any of their respective affiliates or representatives in the course of their due diligence investigation of CB and Cornerstone Bank, the negotiation of this Agreement or in the course of the transactions contemplated hereby.

(b) Holdco and Providence Bank acknowledge and agree that neither CB, Cornerstone Bank nor any other Person has made or is making any express or implied

representation or warranty with respect to CB or Cornerstone Bank other than those contained in this Article III, inclusive of the Sections of the CB Disclosure Schedule referenced in this Article III.

**ARTICLE IV**  
**REPRESENTATIONS AND WARRANTIES OF HOLDCO, PROVIDENCE BANK**  
**AND MERGER SUB**

Except as disclosed in the disclosure schedule (the “Holdco Disclosure Schedule”) delivered by Holdco and Providence Bank to CB and Cornerstone Bank before the execution of this Agreement (which schedule sets 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; provided, however, that notwithstanding anything in this Agreement to the contrary, (i) no such item is required to be set forth in such schedule as an exception to a representation or warranty if its absence would not result in the related representation or warranty being deemed untrue or incorrect under the standard established by Section 9.2 and (ii) the mere inclusion of an item in such schedule as an exception to a representation or warranty shall not be deemed an admission that such item represents a material exception or material fact, event or circumstance or that such item has had or would be reasonably likely to have a Material Adverse Effect on Providence Bank), Holdco, Providence Bank and Merger Sub hereby represent and warrant to CB and Cornerstone Bank as follows:

4.1 Corporate Organization.

(a) Holdco is a corporation duly incorporated, validly existing and in good standing under the laws of the State of North Carolina. Holdco has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary.

(b) Providence Bank is a commercial bank duly incorporated, validly existing and in good standing under the laws of the State of North Carolina. Providence Bank has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary.

(c) Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of North Carolina. Merger Sub has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted, and is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary.

(d) The deposit accounts of Providence Bank are insured by the FDIC through the Deposit Insurance Fund to the fullest extent permitted by law, and all premiums and assessments required to be paid in connection therewith have been paid when due.

(e) As of the date of this Agreement, Holdco has no Subsidiaries (other than Merger Sub), assets or liabilities. At the Effective Time, Holdco will own all of the issued and outstanding common stock of Merger Sub and of Providence Bank. Providence Bank has no Subsidiaries. Merger Sub has no Subsidiaries, assets or liabilities.

#### 4.2 Authority; No Violation.

(a) Subject to the effectiveness of the Reorganization following approval of the Plan and the Holding Company Merger by the shareholders of Providence Bank at the Providence Meeting, each of Holdco, Providence Bank and Merger Sub has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly, validly and unanimously approved by the Board of Directors of Holdco (the “Holdco Board”), the Board of Directors of Providence Bank (the “Providence Bank Board”) and the Board of Directors of Merger Sub (the “Merger Sub Board”). As of the date of this Agreement, the Providence Bank Board has determined that the Reorganization pursuant to the Plan, and the Holdco Board, the Providence Bank Board and the Merger Sub Board has each determined that the Mergers, on substantially the terms and conditions set forth in this Agreement, are advisable and in the best interests of their respective shareholders, and has adopted and approved the Plan, this Agreement, the Bank Merger Agreement and the transactions contemplated hereby. No other corporate proceedings on the part of Holdco, Providence Bank or Merger Sub are necessary to approve the Plan, Mergers, the Bank Merger Agreement or this Agreement or to consummate the transactions contemplated hereby other than the approval of the Reorganization pursuant to the Plan. This Agreement has been duly and validly executed and delivered by Holdco, Providence Bank and Merger Sub and (assuming due authorization, execution and delivery by CB and Cornerstone Bank) constitutes the valid and binding obligation of Holdco, Providence Bank and Merger Sub, and is enforceable against each of Holdco, Providence Bank and Merger Sub, in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization, arrangement, liquidation, subrogation or similar laws affecting the rights of creditors generally or by 12 U.S.C. Section 1818(b)(6)(D) (or any successor statute) and any bank regulatory powers and subject to general principles of equity).

(b) Neither the execution and delivery of this Agreement by Holdco, Providence Bank and Merger Sub nor the consummation by Holdco, Providence Bank and Merger Sub of the transactions contemplated hereby, nor compliance by Holdco, Providence Bank and Merger Sub with any of the terms or provisions of this Agreement, will (i) violate any provision of the Articles of Incorporation or the Bylaws of Holdco, Providence Bank or Merger Sub or (ii) assuming that the approvals of the Reorganization pursuant to the Plan obtained at the Providence Meeting and the consents, approvals and filings referred to in Section 4.4 are duly obtained and/or made, violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to Holdco, Providence Bank or Merger Sub or any of their respective properties or assets.



#### 4.3 Reserved.

4.4 Consents and Approvals. Except for (a) the filing of applications and notices, as applicable, with the Federal Reserve Board under the FRA Act and the BHCA, the FDIC under the FDI Act and the Commissioner under the Bank Act with respect to the Reorganization and the Mergers, and approval of such applications and notices, (b) the Other Regulatory Approvals, (c) the submission and subsequent filing, as applicable, of the Articles of Merger and the articles of merger for the Holding Company Merger with the Commissioner and North Carolina Secretary of State and the submission and subsequent filing, as applicable, of the articles of merger for the Bank Merger with the Commissioner and the North Carolina Secretary of State pursuant to the Bank Act and the NCBCA, (d) any consents, authorizations, approvals, filings or exemptions in connection with compliance with the applicable provisions of federal and state securities laws relating to the regulation of broker-dealers, investment advisers or transfer agents, federal commodities laws relating to the regulation of futures commission merchants and the rules and regulations thereunder and of any applicable SRO, or that are required under consumer finance, mortgage banking and other similar laws, and (e) notices or filings under the HSR Act, if any, no consents or approvals of or filings or registrations with any Governmental Entity are necessary in connection with the consummation by Holdco and Providence Bank of the Reorganization and by Holdco, Merger Sub and Providence Bank of the Mergers or any of the other transactions contemplated by this Agreement. No consents or approvals of or filings or registrations with any Governmental Entity or other Person are necessary in connection with the execution and delivery by Holdco of this Agreement.

4.5 Approvals. Holdco and Providence Bank know of no reason why all regulatory approvals from any Governmental Entity required for the consummation of the transactions contemplated by this Agreement should not be obtained on a timely basis.

4.6 Opinion. Before the execution of this Agreement, the Providence Bank Board has received an opinion from FIG Partners, LLC to the effect that as of the date hereof and based upon and subject to the matters set forth therein, the Merger is fair to the shareholders of Providence Bank from a financial point of view. Such opinion has not been amended or rescinded as of the date of this Agreement.

4.7 Holdco and Providence Bank Information. The information relating to Holdco and to Providence Bank that is provided by Holdco and Providence Bank or their representatives for inclusion in the CB Proxy Statement or in any application, notification or other document filed with any other Regulatory Agency or other Governmental Entity in connection with this Agreement or the transactions contemplated by this Agreement, will not 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 in which they are made, not misleading.

4.8 Compliance with Applicable Law. Each of Holdco, Merger Sub and Providence Bank holds all material licenses, franchises, permits and authorizations necessary for the lawful conduct of its business under and pursuant to each, and have complied in all material respects with and is not in default in any material respect under any, applicable law, statute, order, rule, regulation, policy or guideline of any Governmental Entity relating to it. Other than in material conformity with applicable law, neither Holdco, Merger Sub nor Providence Bank acts as a

fiduciary for any Person, or administer any account for which it acts as a fiduciary, including as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor.

4.9 CRA Compliance. Providence Bank has not received any notice of non-compliance with the applicable provisions of the CRA and the regulations promulgated thereunder. As of the date hereof, Providence Bank's most recent examination rating under the CRA was "satisfactory" or better. Providence Bank knows of no fact or circumstance or set of facts or circumstances which would be reasonably likely to cause Providence Bank to receive any notice of non-compliance with such provisions of the CRA or cause the CRA rating of Providence Bank to decrease below the "satisfactory" level.

4.10 No Other Representations or Warranties.

(a) Except for the representations and warranties made by Holdco, Providence Bank and Merger Sub in this Article IV, neither Holdco, Providence Bank, Merger Sub nor any other Person makes any express or implied representation or warranty with respect to Holdco, Providence Bank, Merger Sub or their respective businesses, operations, assets, liabilities, conditions (financial or otherwise) or prospects, and Holdco, Providence Bank and Merger Sub hereby disclaim any such other representations or warranties. In particular, without limiting the foregoing disclaimer, neither Holdco, Providence Bank, Merger Sub nor any other Person makes or has made any representation or warranty to CB or any of its affiliates or representatives with respect to (i) any financial projection, forecast, estimate, budget or prospective information relating to Holdco, Providence Bank, Merger Sub or their respective businesses, or (ii) except for the representations and warranties made by Holdco, Providence Bank and Merger Sub in this Article IV, any oral or written information presented to CB or any of its affiliates or representatives in the course of their due diligence investigation of Holdco, Providence Bank and Merger Sub, the negotiation of this Agreement or in the course of the transactions contemplated hereby.

(b) CB and Cornerstone Bank acknowledge and agree that none of Holdco, Providence Bank, Merger Sub or any other Person has made or is making any express or implied representation or warranty with respect to Holdco, Providence Bank or Merger Sub other than those contained in this Article IV.

**ARTICLE V**  
**COVENANTS RELATING TO CONDUCT OF BUSINESS**

5.1 Conduct of CB's and Cornerstone Bank's Business Before the Effective Time. Except as expressly contemplated by or permitted by this Agreement or with the prior written consent of Holdco, during the period from the date of this Agreement to the Effective Time, each of CB and Cornerstone Bank shall:

- (a) conduct its business in the ordinary course in all material respects;
- (b) use commercially reasonable efforts to maintain and preserve intact its business organization and advantageous business relationships and retain the services of its key officers and key employees; and

(c) take no action that is intended to or would reasonably be expected to adversely affect or materially delay the ability of either CB, Holdco or Providence Bank to obtain any necessary approvals of any Regulatory Agency or other Governmental Entity required for the transactions contemplated hereby or to perform its covenants and agreements under this Agreement or to consummate the transactions contemplated hereby.

5.2 CB and Cornerstone Bank Forbearances. During the period from the date of this Agreement to the Effective Time, except as expressly contemplated or permitted by this Agreement, including Section 5.1, or required by applicable law or regulation or a contract to which CB or Cornerstone Bank is a party, neither CB nor Cornerstone Bank shall, without the prior written consent of Holdco:

(a) other than in the ordinary course of business consistent with past practice, incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, or make any loan or advance or capital contribution to, or investment in, any Person (it being understood and agreed that incurrence of indebtedness in the ordinary course of business consistent with past practice shall include the creation of deposit liabilities, purchases of federal funds, borrowings from the Federal Home Loan Bank, sales of certificates of deposit, acceptance of brokered deposits, participation in the Certificate of Deposit Account Registry Service, and entering into repurchase agreements);

(b) adjust, split, combine or reclassify any of its capital stock;

(c) make, declare or pay any dividend, or make any other distribution on, or directly or indirectly redeem, purchase or otherwise acquire, any shares of its capital stock or any securities or obligations convertible (whether currently convertible or convertible only after the passage of time or the occurrence of certain events) into or exchangeable for any shares of its capital stock;

(d) grant any CB Rights or other equity-based award with respect to shares of CB Common Stock or other securities of CB or Cornerstone Bank or grant any Person any right to acquire any shares of capital stock;

(e) issue any additional shares of capital stock or other securities;

(f) hire or terminate any employees or independent contractors or enter into any new employment or independent contractor agreements or arrangements; provided, however, that Cornerstone Bank may terminate any of its employees for cause, in its sole discretion, and may hire new, at-will employees at an annual rate of salary not to exceed \$50,000 to fill vacancies that may arise in the ordinary course of business;

(g) commit to make any (i) acquisition and development loan or similar extension of credit, (ii) secured loan or extension of credit in an amount in excess of \$300,000, (iii) unsecured loan or extension of credit in an amount in excess of \$55,000; (iv) renewal or amendment of any existing loan or extension of credit of more than \$50,000 that is past due for more than 60 days as to principal or interest or that is a “classified loan”; (v) nonresidential, non-owner occupied, construction loan, (vi) speculative residential construction loan in excess of

\$300,000; (vii) apartment loan; or (viii) acquisition of any loan participation; provided, however, that, if Cornerstone Bank requests the prior approval of Holdco in accordance with this Section 5.2 to make a loan or extend credit specified in the preceding items, and Holdco shall not have disapproved such request in writing within two (2) Business Days upon receipt of such request from Cornerstone Bank, then such request shall be deemed to be approved by Holdco;

(h) except as required by applicable law or the terms of any CB Benefit Plan as in effect on the date of this Agreement and except for normal increases made in the ordinary course of business consistent with past practice, (i) increase the wages, salaries, incentive compensation, incentive compensation opportunities of, or benefits provided to, any current, former or retired employee, director, consultant, independent contractor or other service provider of CB or any of its ERISA Affiliates, or, except for payments in the ordinary course of business consistent with past practice, pay or provide, or increase or accelerate the accrual rate, vesting or timing of payment or funding of, any compensation, benefits or other rights of any current, former or retired employee, director, consultant, independent contractor or other service provider of CB or any of its ERISA Affiliates; (ii) establish, adopt or become a party to any new employee benefit or compensation plan, program, commitment or agreement or amend, modify, change or terminate any CB Benefit Plan, except as set forth on Section 5.2(h) of the CB Disclosure Schedule; (iii) grant any stock options, stock appreciation rights, stock-based or stock-related awards, performance stock, phantom or restricted stock unit awards; (iv) take any action other than in the ordinary course of business and consistent with past practice, to fund or in any way secure the payment of compensation or benefits under any CB Benefit Plan; (v) amend, alter or modify any warrant or other equity-based right to purchase any capital stock or other equity interests in CB or any securities exchangeable for or convertible into the same or other CB Common Stock outstanding on the date hereof, except as otherwise permitted in this Agreement; (vi) enter into any collective-bargaining agreement; or (vii) enter, amend, modify, alter, terminate or change any third-party vendor or service agreement related to any CB Benefit Plan;

(i) sell, transfer, mortgage, encumber or otherwise dispose of any material amount of its properties or assets to any Person other than a Subsidiary, or cancel, release or assign any material amount of indebtedness to any such Person or any claims held by any such Person, in each case other than in the ordinary course of business consistent with past practice or pursuant to contracts in force at the date of this Agreement; provided, however, that if Cornerstone Bank shall request the prior approval of Holdco in accordance with this Section 5.2 to sell, transfer or dispose of any of its "Other Real Estate Owned", and Holdco shall not have disapproved such request in writing within two (2) Business Days following its receipt of such request from Cornerstone Bank, then such request shall be deemed to be approved by Holdco and Cornerstone Bank may effect the sale, transfer or disposal referenced in such request on the terms described in such request; provided, further, that no prior approval is required for (i) transactions described in Section 5.2(i) of the CB Disclosure Schedule or (ii) transactions with respect to any real estate valued at less than \$250,000 in each case, so long as the sale or transfer price is at least 75% of the carrying value for such real estate on the CB Management Report;

(j) enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking,

operating and servicing policies, except as required by applicable law, regulation or policies imposed by any Governmental Entity;

(k) make any material investment either by purchase of stock or securities, contributions to capital, property transfers or purchase of any property or assets of any other Person;

(l) amend the CB Articles, the CB Bylaws, the Cornerstone Bank Articles or the Cornerstone Bank Bylaws, or otherwise take any action to exempt any Person (other than Holdco or Providence Bank) or any action taken by any such Person from any takeover statute or similarly restrictive provisions of its organizational documents or terminate, amend or waive any provisions of any confidentiality or standstill agreements in place with any third parties;

(m) other than in prior consultation with Holdco, restructure or materially change its investment securities portfolio or its gap position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported; provided that this item (n) does not prohibit CB or Cornerstone Bank from purchasing or selling securities for or from its investment securities portfolio in the ordinary course of its business consistent with its past practice;

(n) other than commencement or settlement of foreclosure or other collection actions in the ordinary course of business consistent with past practice, commence or settle any claim, action or proceeding where the amount in dispute is in excess of \$50,000 or subjecting CB or Cornerstone Bank to any material restrictions on its current or future business operations (including the future business and operations of the Surviving Corporation and the Surviving Bank);

(o) take any action or fail to take any action that is intended or may reasonably be expected to result in any of the conditions to the Mergers set forth in Article VII not being satisfied;

(p) implement or adopt any material change in its tax accounting or financial accounting principles, practices or methods, other than as may be required by applicable law, GAAP or regulatory guidelines;

(q) file or amend any Tax Return other than in the ordinary course of business, make any significant change in any method of Tax or accounting (other than as may be required by applicable law, GAAP or regulatory guidelines), make or change any Tax election different from the prior ordinary course of conduct or CB and Cornerstone Bank or settle or compromise any Tax liability in excess of \$25,000;

(r) except for transactions in the ordinary course of business consistent with past practice, terminate, or waive any material provision of, any CB Contract or make any change in any instrument or agreement governing the terms of any of its securities, or material lease or contract, other than normal renewals of contracts and leases without material adverse changes of terms;

(s) take any action that would materially impede or materially delay the ability of the Parties to obtain any necessary approvals of any Regulatory Agency or Governmental Entity required for the transactions, contemplated hereby;

(t) agree to take or make any commitment to take any of the actions prohibited by this Section 5.2; or

(u) organize, charter, establish or acquire, directly or indirectly, any Subsidiary.

5.3 Holdco, Merger Sub and Providence Bank Forbearances. Except as expressly permitted by this Agreement or with the prior written consent of CB, during the period from the date of this Agreement to the Effective Time, each of Holdco, Merger Sub and Providence Bank shall not:

(a) take any action or fail to take any action that is intended or may reasonably be expected to result in any of the conditions to the First Step Merger set forth in Article VII not being satisfied;

(b) take any action that would be reasonably expected to prevent, materially impede, materially impact or materially delay the ability of the Parties to obtain any necessary approvals of any Regulatory Agency or any Governmental Entity required for the consummation of the transactions contemplated by this Agreement or cause any other application to a Regulatory Agency for approval of a merger to be submitted for filing while any application related to the Mergers or this Agreement is pending before any Regulatory Agency; or

(c) agree to take, make any commitment to take, or adopt any resolutions of the Holdco Board, Merger Sub or the Providence Bank Board in support of, any of the actions prohibited by this Section 5.3.

## **ARTICLE VI** **ADDITIONAL AGREEMENTS**

### 6.1 Regulatory Matters.

(a) CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank shall cooperate with each other and use their respective commercially reasonable efforts to promptly prepare and file all necessary documentation to effect all applications, notices, petitions and filings, to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and Governmental Entities that are necessary or advisable to consummate the transactions contemplated by this Agreement (including the Reorganization, the First Step Merger, the Holding Company Merger and the Bank Merger), and to comply with the terms and conditions of all such permits, consents, approvals and authorizations of all such third parties or Governmental Entities. CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank shall have the right to review in advance, and, to the extent practicable, each will consult with the other on, in each case subject to applicable laws relating to the confidentiality of information, all the information relating to CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank, as the case may be, and any of their respective Subsidiaries, that appears in any filing made with, or

written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties shall act reasonably and as promptly as practicable. The parties shall consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other apprised of the status of matters relating to completion of the transactions contemplated by this Agreement. Notwithstanding the foregoing, nothing contained herein shall be deemed to require any of Holdco, Merger Sub, Providence Bank, CB or Cornerstone Bank to take any action, or commit to take any action, or agree to any condition or restriction, in connection with obtaining the foregoing permits, consents, approvals and authorizations of third parties or Governmental Entities, that would reasonably be expected to have a Material Adverse Effect on Holdco, Merger Sub, Providence Bank, CB, Cornerstone Bank, the Surviving Corporation or the Surviving Bank (a “Materially Burdensome Regulatory Condition”).

(b) Each of CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank shall, upon request, furnish to the other all information concerning itself, its Subsidiaries, directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with the CB Proxy Statement or any other statement, filing, notice or application made by or on behalf of Holdco, Merger Sub, Providence Bank, Cornerstone Bank, CB or any of their respective Subsidiaries to any Governmental Entity in connection with the Reorganization, the Mergers and the other transactions contemplated by this Agreement.

(c) Each of CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank shall promptly advise the other upon receiving any communication from any Governmental Entity the consent or approval of which is required for consummation of the transactions contemplated by this Agreement that causes such party to believe that there is a reasonable likelihood that any Holdco Requisite Regulatory Approval or CB Requisite Regulatory Approval, respectively, will not be obtained or that the receipt of any such approval may be materially delayed.

## 6.2 Access to Information; Reports; Confidentiality; Non-Solicitation of Employees.

(a) Upon reasonable notice and subject to applicable laws relating to the confidentiality of information, each of CB and Cornerstone Bank shall, and shall cause each of their respective Subsidiaries to, afford to the officers, employees, accountants, counsel, advisors, agents and other representatives of Holdco and Providence Bank, reasonable access, during normal business hours during the period before the Effective Time, to all its properties, books, contracts, commitments and records, except that, with respect to Real Property, such access will not extend to the sampling of the air, soil, surface water or ground water without the involved Party’s prior written consent, and, during such period, each of CB and Cornerstone Bank shall, and shall cause its Subsidiaries to, make available to Holdco and Providence Bank (i) a copy of each report, schedule, registration statement and other document filed or received by it during such period pursuant to the requirements of federal securities laws or federal or state banking or insurance laws and (ii) all other information concerning its business, properties and personnel as the other Party may reasonably request. Upon reasonable notice and subject to applicable laws relating to the confidentiality of information, each of Holdco and Providence Bank shall provide

such information as may reasonably be required by CB or Cornerstone Bank to determine the compliance by Holdco and Providence Bank with, or verify the accuracy of, the representations, warranties and covenants made by each of Holdco and Providence Bank and contained in this Agreement, or to the ability of Holdco and Providence Bank to consummate the transactions contemplated hereby. None of CB, Cornerstone Bank, Holdco, Merger Sub, Providence Bank or any of their Subsidiaries, shall be required to provide access to or to disclose information where such access or disclosure would jeopardize the attorney-client privilege of such Party or its Subsidiaries or contravene any law, rule, regulation, order, judgment, decree, fiduciary duty or binding agreement entered into before the date of this Agreement. The parties shall make appropriate substitute disclosure arrangements under circumstances in which the restrictions of the preceding sentence apply.

(b) Each Party hereto shall, and shall cause its respective agents and representatives to, maintain in confidence all information received from the other Parties (other than disclosures to that Party's agents and representatives in connection with the evaluation and consummation of the Reorganization and the Mergers) in connection with this Agreement, the Reorganization or the Mergers (including the existence and terms of this Agreement) and use such information solely to evaluate the Mergers, unless (i) such information is already known to the receiving Party or its agents and representatives, (ii) such information is subsequently disclosed to the receiving Party or its agents and representatives by a third party that, to the knowledge of the receiving Party, is not bound by a duty of confidentiality, (iii) such information becomes publicly available through no fault of the receiving Party, (iv) the receiving Party in good faith believes that the use of such information is necessary or appropriate in making any filing or obtaining any consent required for the Mergers (in which case the receiving Party shall advise the other Party before making the disclosure) or (v) the receiving Party in good faith believes that the furnishing or use of such information is required by or necessary or appropriate in connection with any applicable laws or any listing or trading agreement concerning its publicly traded securities (in which case the receiving Party shall advise the other Party before making the disclosure except where prohibited by law). All information and materials provided by CB, Cornerstone Bank, Holdco, Merger Sub or Providence Bank pursuant to this Agreement shall be subject to the provisions of the Mutual Nondisclosure Agreement entered into between Providence Bank and CB dated March 21, 2017.

(c) Within 20 days following the end of each calendar month occurring before the Closing Date, Cornerstone Bank shall provide to Providence Bank a written report specifying, as of such month end, Cornerstone Bank's past due loans, watch list loans, classified loans, non-accrual loans, foreclosures in process, "Other Real Estate Owned", restructured loans, allowance for lease and loan losses, new loans made during such month, renewed loans made during such month, and loan concentration reports.

(d) No investigation by a party or its representatives shall affect the representations and warranties of any other party set forth in this Agreement.

(e) Until the earlier of (i) the Effective Time or (ii) one (1) year from the date of this Agreement, Holdco and Providence Bank agree that, without the prior written consent of CB, and CB and Cornerstone Bank agree that, without the prior written consent of Holdco, they or it will not, directly or indirectly, initiate contact with or otherwise solicit any current officer of



employee of the other for the purpose of hiring such officer or employee, except that this prohibition shall not apply to: (i) employment advertisements placed in publications of general circulation or in trade journals, or other means not directed specifically at such officer or employee, (ii) contact initiated by such officer or employee, or (iii) the hiring of any such officer or employee as a result of item (i) or (ii).

6.3 CB Shareholder Approval. CB shall promptly call a meeting of its shareholders to be held for the purpose of obtaining the requisite shareholder approval required in connection with this Agreement and the First Step Merger (including any meeting that occurs after any adjournment, the “CB Shareholder Meeting”), on substantially the terms and conditions set forth in this Agreement, and shall use commercially reasonable efforts to cause such meeting to occur as soon as reasonably practicable. Except to the extent provided otherwise in Section 6.9(b), the CB Board shall use commercially reasonable efforts to obtain from CB’s shareholders the requisite shareholder vote approving the First Step Merger, on substantially the terms and conditions set forth in this Agreement. CB shall submit this Agreement and the First Step Merger to its shareholders at the CB Shareholder Meeting even if the CB Board shall have withdrawn, modified or qualified its recommendation. The CB Board has adopted resolutions approving the First Step Merger, on substantially the terms and conditions set forth in this Agreement, and directing that the First Step Merger, on such terms and conditions, be submitted to CB’s shareholders for their consideration.

6.4 Providence Regulatory Approvals and Shareholder Approval. Providence Bank shall promptly call the Providence Meeting for the purpose of obtaining the requisite shareholder approvals of the Reorganization pursuant to the Plan and the Holding Company Merger on substantially the terms and conditions set forth in the Plan and this Agreement; and the Providence Board shall recommend to the shareholders of Providence Bank, and shall use commercially reasonable to cause, such approvals. Holdco and Providence shall use commercially reasonable efforts to: (i) make and obtain all consents, approvals, filings and registrations with any Governmental Entity or other Person as are necessary to consummate the transactions contemplated by this Agreement; (ii) raise at least \$8,000,000 in gross proceeds from the offer and sale of shares of Providence Bank common stock (the “Providence Offering”); and (iii) make and obtain all consents, approvals, filings and registrations with any Governmental Entity or other Person as are necessary for Providence Bank to declare and pay a cash dividend of \$11,250,000 to Holdco (the “Providence Dividend”).

6.5 Employee Matters.

(a) All individuals employed by, or on an authorized leave of absence from, CB at the Effective Time and thereafter until immediately before the effective time of the Holding Company Merger shall automatically become employees of the Surviving Corporation as of the effectiveness of the Holding Company Merger. All individuals employed by, or on an authorized leave of absence from, Cornerstone Bank immediately before the effective time of the Bank Merger (collectively, the “Covered Employees”) shall automatically become employees of the Surviving Bank as of the Effective Time of the Bank Merger. Immediately following the Effective Time of the Bank Merger, Surviving Bank shall provide to those Covered Employees employee benefits, rates of base salary or hourly wage and annual bonus opportunities that are substantially similar, in the aggregate, to the aggregate rates of base salary or hourly wage and

the aggregate employee benefits and annual bonus opportunities provided to similarly situated employees of Providence Bank; provided, however, that, notwithstanding the foregoing, nothing contained herein shall (i) be treated as an amendment of any particular CB Benefit Plan, (ii) give any third party any right to enforce the provisions of this Section 6.5, (iii) limit the right of the Surviving Bank to terminate the employment of any Covered Employee at any time or require the Surviving Bank to provide any such employee benefits, rates of base salary or hourly wage or annual bonus opportunities for any period following any such termination or (iv) obligate CB, Cornerstone Bank, Holdco or the Surviving Bank to (A) maintain any particular CB Benefit Plan or (B) retain the employment of any particular Covered Employee. Each Covered Employee shall be given credit for his or her full years of service with CB or Cornerstone Bank, as applicable, for purposes of (i) entitlement to vacation and sick leave and for participation in all of Holdco's or Providence Bank's welfare, insurance and other fringe benefit plans, and (ii) eligibility for participation and vesting in Holdco's or Providence Bank's 401(k) and pension plans.

(b) If a Covered Employee who does not have an employment, change-of-control or severance agreement with CB or Cornerstone Bank (i) is terminated by the Surviving Bank following the effectiveness of the Mergers due to a permanent or indefinite reduction in staff resulting in job elimination, reduction of a position (including a position that had been held at Cornerstone Bank) as the result of the Mergers or an organizational or business restructuring or the integration of CB and Cornerstone Bank with Holdco and Providence Bank, discontinuance of an operation, relocation of all or a part of Holdco's business, sale of an operation to another company, or sale or other change in ownership of all or a part of Holdco's business or (ii) voluntarily resigns after being notified that, as a condition of employment, such Covered Employee's base salary or hourly wages will be materially decreased, in any case or both cases, during the period beginning at the Effective Time and ending six (6) months following the Effective Time, such Covered Employee shall be entitled to receive severance payments (conditioned on such Covered Employee's execution and non-revocation of a release of claims in a form acceptable to Holdco) equal to two (2) weeks of pay for every year of service with CB or Cornerstone Bank (including service with the Surviving Bank), with a minimum of four (4) weeks and a maximum of 26 weeks of pay for those Covered Employees with one year or more of service with CB or Cornerstone Bank (including service with Surviving Bank). Those Covered Employees with less than one year of service with CB or Cornerstone Bank (including service with Surviving Bank) shall be entitled to receive severance payments equal to two (2) weeks of pay.

Except as otherwise contemplated by this Agreement, each of CB and Cornerstone Bank shall take whatever action is necessary and permitted by applicable law and contracts to which it is a party to terminate any and all other severance arrangements and to ensure that CB, Cornerstone Bank, Holdco, Providence Bank, the Surviving Corporation and the Surviving Bank have no other liability for any other severance payments (other than as set forth in this Section 6.5(b)). CB and Cornerstone Bank shall cooperate with Holdco and Providence Bank to effectuate the foregoing, including the Surviving Corporation's and the Surviving Bank's compliance with the Worker Adjustment Retraining and Notification Act or any similar state or local law.

Nothing contained in this Section 6.5(b) shall be construed or interpreted to limit or modify in any way the at-will employment policies of Holdco and Providence Bank. In addition, in no event shall severance pay payable under this Section 6.5(b) to any Covered Employee who does not have an employment, change-in-control or severance agreement with CB or Cornerstone Bank be taken into account in determining the amount of any other benefit (including an individual's benefit under any retirement plan, SERP or agreement).

(c) If Holdco so requests (which request shall be made no less than five (5) days before the Effective Time), CB and Cornerstone Bank shall take any and all actions which are consistent with applicable laws and regulations, which would not breach the contractual rights of third parties and which are required (including the adoption of resolutions by the CB Board and/or the Cornerstone Bank Board) to amend, freeze and/or terminate any or all CB Benefit Plans immediately before the Effective Time, and, if requested by Holdco, to implement any such actions.

#### 6.6 Indemnification; Directors' and Officers' Insurance.

(a) In the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative (a "Claim"), including any such Claim in which any individual who is now, or has been at any time before the date of this Agreement, or who becomes before the Effective Time, a director, officer or employee of CB or Cornerstone Bank or who is or was serving at the request of CB or Cornerstone Bank as a director, officer, fiduciary or employee of another Person (the "Indemnified Parties"), is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he is or was a director, officer, fiduciary or employee of CB or Cornerstone Bank or, at the request of CB or Cornerstone Bank, another Person before the Effective Time or (ii) this Agreement or any of the transactions contemplated by this Agreement, whether asserted or arising before or after the Effective Time, the parties shall cooperate and use their best efforts to defend against and respond thereto. All rights to indemnification and exculpation from liabilities for acts or omissions occurring at or before the Effective Time now existing in favor of any Indemnified Party as provided in CB's, Cornerstone Bank's, Holdco's Merger Sub's or Providence Bank's respective articles of incorporation or bylaws (or comparable organizational documents), and any existing indemnification agreements set forth on Section 6.6(a) of the CB Disclosure Schedule, shall survive the Reorganization and the Mergers and shall continue in full force and effect in accordance with their terms, and shall not be amended, repealed or otherwise modified after the Effective Time in any manner that would adversely affect the rights thereunder of such individuals for acts or omissions occurring at or before the Effective Time or taken at the request of Holdco or Providence Bank pursuant to Section 6.7, it being understood that nothing in this sentence shall require any amendment to the articles of incorporation or bylaws of the Surviving Corporation or the Surviving Bank.

(b) From and after the Effective Time, CB, and from and after the effective times of the Holding Company Merger and the Bank Merger, the Surviving Corporation and the Surviving Bank, as applicable, shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless, and provide advancement of reasonable expenses to, each Indemnified Party against all losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement of or in connection with any Claim based in whole or in part on or arising

in whole or in part out of the fact that such person is or was a director, officer, fiduciary or employee of CB or Cornerstone Bank or, at the request of CB or Cornerstone Bank, another Person and pertaining to any matter existing or occurring, or any acts or omissions occurring, at or before the Effective Time, whether asserted or claimed before, or at or after, the Effective Time (including matters, acts or omissions occurring in connection with the approval of this Agreement and the consummation of the transactions contemplated hereby) or taken at the request of Holdco, Merger Sub or Providence Bank pursuant to Section 6.7.

(c) Holdco and Providence Bank shall cause the individuals serving as officers and directors of CB and/or Cornerstone Bank immediately before the Effective Time to be covered for a period of six (6) years from the Effective Time or such lesser period of time as can be purchased for an aggregate amount equal to 150% of the current annual premiums for the existing directors' and officers' liability insurance policies maintained by CB and/or Cornerstone Bank ("CB D&O Policies") by such CB D&O Policies (provided that Holdco and Providence Bank may substitute therefor policies of at least the same coverage and amounts containing terms and conditions that are not less advantageous to such officers and directors than such policy) with respect to acts or omissions occurring before the Effective Time that were committed by such officers and directors in their capacity as such or as directors, officers, fiduciaries or employees of another Person at the request of CB or Cornerstone Bank.

(d) The provisions of this Section 6.6 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party and his or her heirs and representatives.

6.7 Additional Agreements. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement or to vest the Surviving Corporation or the Surviving Bank with full title to all properties, assets, rights, approvals, immunities and franchises of CB and Cornerstone Bank, the proper officers and directors of CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank and their respective Subsidiaries shall take all such necessary action as may be reasonably requested by the Surviving Corporation and the Surviving Bank.

6.8 Advice of Changes. Each of CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank shall promptly advise the other of any change or event (a) having or reasonably likely to have a Material Adverse Effect on it or (b) that it believes would or would be reasonably likely to cause or constitute a material breach of any of its representations, warranties or covenants contained in this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties (or remedies with respect thereto) or the conditions to the obligations of the parties under this Agreement; provided, further, that a failure to comply with this Section 6.8 shall not constitute a breach of this Agreement or the failure of any condition set forth in Article VII to be satisfied unless the underlying Material Adverse Effect or material breach would independently result in the failure of a condition set forth in Article VII to be satisfied.

6.9 No Solicitation.

(a) None of CB, Cornerstone Bank or any officer, director, employee, agent or representative (including any investment banker, financial advisor, attorney, accountant or

other retained representative) of CB or Cornerstone Bank shall directly or indirectly (i) solicit, initiate, encourage, facilitate (including by way of furnishing information) or take any other action designed to facilitate any inquiries or proposals regarding any merger, share exchange, consolidation, sale of assets, sale of shares of capital stock (including by way of a tender offer) or similar transaction involving CB or Cornerstone Bank that, if consummated, would constitute an Alternative Transaction (any of the foregoing inquiries or proposals being referred to herein as an “Alternative Proposal”), (ii) participate in any discussions or negotiations regarding an Alternative Transaction, (iii) enter into any agreement regarding any Alternative Transaction or (iv) enter into a rights agreement applicable to an Alternative Proposal or the transactions contemplated thereby. CB and Cornerstone Bank shall, and shall cause each of the representatives of CB and Cornerstone Bank to, (A) immediately cease and cause to be terminated all existing discussions or negotiations with any Person conducted heretofore with respect to any Alternative Proposal, (B) request the prompt return or destruction of all confidential information previously furnished in connection therewith and (C) not terminate, waive, amend, release or modify any provision of any confidentiality or standstill agreement relating to any Alternative Proposal to which either of them is a party, and shall enforce the provisions of any such agreement. Notwithstanding the foregoing, if at any time after the date hereof but before approval of this Agreement and the Merger by CB’s shareholders, (1) CB or Cornerstone Bank receives an unsolicited written Alternative Proposal that the CB Board believes in good faith to be bona fide, (2) such Alternative Proposal was not the result of a violation of this Section 6.9, (3) the CB Board determines in good faith (after consultation with outside counsel and its financial advisor) that such Alternative Proposal constitutes or is reasonably likely to lead to a Superior Proposal, and (4) the CB Board determines in good faith (after consultation with outside counsel) that the failure to take the actions referred to in clause (x) or (y) below would be reasonably likely to violate its fiduciary duties under applicable law, then CB may (and may authorize Cornerstone Bank and its representatives to) (x) furnish nonpublic information regarding CB and its Subsidiaries to the Person making such Alternative Proposal (and its representatives) pursuant to a customary confidentiality agreement containing terms substantially similar to, and no less favorable to CB than, those contained in the Confidentiality Agreement (provided, that any nonpublic information provided to any Person given such access shall have been previously provided to Providence Bank or shall be provided to Providence Bank before or concurrently with the time it is provided to such Person), and (y) participate in discussions and negotiations with the Person making such Alternative Proposal.

(b) Except as provided otherwise below, neither the CB Board nor any committee thereof may (i)(A) withdraw (or modify or qualify in any manner adverse to Holdco or Providence Bank) or refuse to recommend approval of this Agreement and the First Step Merger to CB’s shareholders or (B) adopt, approve, recommend, endorse or otherwise declare advisable the adoption of any Alternative Proposal (each such action set forth in this Section 6.9(b) being referred to as an “Adverse Recommendation Change”), or (ii) cause or permit CB, Cornerstone Bank or any of CB’s Subsidiaries to enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other agreement constituting or related to, or that is intended to or is reasonably likely to lead to, any Alternative Proposal (other than a confidentiality agreement permitted by Section 6.9(a)). Notwithstanding the foregoing, at any time before obtaining approval of this Agreement and the First Step Merger by CB’s shareholders, the CB Board may, if the CB Board determines in good faith (after consultation

with outside counsel) that the failure to do so would be reasonably likely to violate its fiduciary duties under applicable law, taking into account all adjustments to the terms of this Agreement that may be offered by Holdco or Providence Bank under this Section 6.9(b), make an Adverse Recommendation Change; provided, that CB may not make any Adverse Recommendation Change in response to an Alternative Proposal unless (x) CB shall not have breached this Section 6.9 in any respect and (y):

(i) The CB Board determines in good faith (after consultation with outside counsel and its financial advisor) that such Alternative Proposal is a Superior Proposal and such Superior Proposal has been made and has not been withdrawn and continues to be a Superior Proposal after taking into account all adjustments to the terms of this Agreement that may be offered by Holdco under this Section 6.9(b);

(ii) CB has given Holdco at least five (5) Business Days' prior written notice of its intention to take such action (which notice shall specify the material terms and conditions of any such Superior Proposal (including the identity of the Person making such Superior Proposal) and has contemporaneously provided an unredacted copy of the relevant proposed transaction agreements with the Person making such Superior Proposal; and

(iii) Before effecting such Adverse Recommendation Change, CB has negotiated, and has caused its representatives to negotiate, in good faith with Holdco during such notice period to the extent Holdco wishes to negotiate, to enable Holdco to revise the terms of this Agreement such that it would cause such Superior Proposal to no longer constitute a Superior Proposal.

In the event of any material change to the terms of such Superior Proposal, CB shall, in each case, be required to deliver to Holdco a new written notice, the notice period shall have recommenced and CB shall be required to comply with its obligations under this Section 6.9 with respect to such new written notice.

(c) In addition to the obligations of CB and Cornerstone Bank under Section 6.9(a) and (b), CB shall notify Holdco promptly (but in no event later than 48 hours) after receipt of any Alternative Proposal, or any material modification of or material amendment to any Alternative Proposal, or any request for nonpublic information relating to CB or Cornerstone Bank or for access to the properties, books or records of CB or Cornerstone Bank by any Person that informs the CB Board that it is considering making, or has made, an Alternative Proposal. Such notice to Holdco shall be made orally and in writing, and shall indicate the identity of the Person making the Alternative Proposal or intending to make or considering making an Alternative Proposal or requesting nonpublic information or access to the books and records of CB or Cornerstone Bank, and the material terms of any such Alternative Proposal or modification or amendment to an Alternative Proposal. CB shall keep Holdco fully informed, on a current basis, of any material changes in the status and any material changes or modifications in the terms of any such Alternative Proposal, indication or request. CB shall also promptly, and in any event within 24 hours, notify Holdco, orally and in writing, if it enters into discussions or negotiations concerning any Alternative Proposal in accordance with Section 6.9 (a).

(d) As used in this Agreement:

(i) “Alternative Transaction” means any of (A) a transaction pursuant to which any Person (or group of Persons) (other than Providence Bank or its affiliates), directly or indirectly, acquires or would acquire more than 25% of the outstanding shares of CB Common Stock or outstanding voting power or of any new series or new class of preferred stock that would be entitled to a class or series vote with respect to this Agreement and the First Step Merger, whether from CB or pursuant to a tender offer or exchange offer or otherwise, (B) a merger, share exchange, consolidation or other business combination involving CB or Cornerstone Bank (other than the Mergers), (C) any transaction pursuant to which any Person (or group of Persons) (other than Providence Bank or its affiliates) acquires or would acquire control of assets (including for this purpose the outstanding equity securities of Cornerstone Bank or any other Subsidiary of CB and securities of the entity surviving any merger or business combination including Cornerstone Bank or any other of CB’s Subsidiaries) of CB, or any of its Subsidiaries representing more than 25% of the assets of CB and its Subsidiaries, taken as a whole, immediately before such transaction, or (D) any other consolidation, business combination, recapitalization or similar transaction involving CB or any of its Subsidiaries, other than the transactions contemplated by this Agreement, as a result of which the holders of shares of CB Common Stock immediately before such transactions do not, in the aggregate, own at least 75% of the outstanding shares of 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 CB Common Stock immediately before the consummation thereof.

(ii) “Superior Proposal” means any unsolicited bona fide Alternative Proposal that the CB Board determines in good faith (after consultation with outside counsel and its financial advisor), taking into account all legal, financial, regulatory and other aspects of the proposal and the Person (or group of Persons) making the proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation), (A) if consummated, would be more favorable to the shareholders of CB from a financial point of view than the transactions contemplated by this Agreement (including taking into account any adjustment to the terms and conditions proposed by Holdco or Providence Bank in response to such proposal under Section 6.9(b) or otherwise) and (B) if accepted, is reasonably likely to be completed on the terms proposed on a timely basis.

(e) CB and Cornerstone Bank shall ensure that their respective officers, directors, employees, agents and representatives (including any investment bankers, financial advisors, attorneys, accountants or other retained representatives) of CB, Cornerstone Bank or any other of CB’s Subsidiaries are aware of the restrictions described in this Section 6.9 as reasonably necessary to avoid violations thereof. It is understood that any violation of the restrictions set forth in this Section 6.9 by any officer, director, employee, agent or representative (including any investment banker, financial advisor, attorney, accountant or other retained representative) of CB, Cornerstone Bank or any other Subsidiary of CB, at the direction or with the consent of CB, Cornerstone Bank or any of CB’s other Subsidiaries, shall be deemed to be a breach of this Section 6.9 by CB.

6.10 Restructuring Efforts. If CB shall have failed to obtain the requisite vote or votes of its shareholders for the consummation of the transactions contemplated by this Agreement at a duly held meeting of its shareholders or at any adjournment thereof, then, unless this Agreement shall have been terminated pursuant to its terms, the Parties shall each in good faith use their reasonable best efforts to negotiate a restructuring of the transactions provided for herein (it being understood that none of them shall have any obligation to alter or change the amount or kind of the Merger Consideration in a manner adverse to it or its shareholders) and to resubmit the transaction to the shareholders of CB for approval, with the timing of such resubmission to be determined by mutual agreement.

6.11 Commercially Reasonable Efforts; Cooperation. Each of CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank agrees to exercise good faith and use its commercially reasonable efforts to satisfy the various covenants and conditions to the Closing in this Agreement, and to take or cause to be taken all actions, and do or cause to be done all things, necessary, proper or advisable on its part under this Agreement and applicable law to consummate and make effective the Reorganization and the Mergers and the other transactions contemplated by this Agreement as soon as reasonably practicable, including preparing and filing as promptly as practicable all documentation to effect all necessary notices, reports and other filings and to obtain as promptly as reasonably practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Reorganization, the Mergers or any of the other transactions contemplated by this Agreement.

6.12 Creation of and Appointments to Providence Bank Wilson Advisory Board. Providence Bank agrees that, prior to the Effective Time, it shall take all necessary action to establish a Providence Bank Wilson Advisory Board (the “Wilson Board”). The Wilson Board shall initially be composed of the current members of the CB Board, together with other business and community leaders chosen by Providence Bank after consultation with CB. Membership on the Wilson Board shall be conditioned upon execution of an agreement providing that such person will not engage in activities competitive with Providence Bank until the later of the date that is two (2) years following the effective date of the Bank Merger or the date on which he or she ceases to be a member of the Wilson Board. The Wilson Board will meet quarterly for two (2) years following the effective time of the Bank Merger and members of the Wilson Board will be paid \$250 per meeting of the Wilson Board attended.

6.13 Support Agreements and Non-compete Agreements. Each member of the CB Board shall execute and deliver to Holdco a Support Agreement in the form attached as Exhibit B as of the date of this Agreement. Each member of the CB Board set forth on Section 6.13 of the CB Disclosure Schedule shall execute and deliver a non-compete agreement in the form attached as Exhibit C prior to the Closing.

6.14 Settlement, Release and Waiver Agreements. CB, Cornerstone Bank and those employees of Cornerstone Bank set forth on Section 6.14 of the CB Disclosure Schedule shall execute and deliver to Holdco and Providence Bank at the Closing the Settlement, Release and Waiver Agreements attached to Section 6.14 of the CB Disclosure Schedule (the “Settlement Agreements”).



6.15 Assumption of Trust Preferred Capital Securities. Holdco shall enter into a supplemental indenture with the trustee of CB's outstanding subordinated debentures and take all actions necessary to evidence the succession of Holdco as the obligor on the outstanding trust preferred securities of CB Financial Capital Trust I and the associated outstanding junior subordinated debentures of CB as of the Effective Time. The form of the supplemental indenture shall be reasonably acceptable to CB and to Holdco. Holdco agrees to assume CB's obligations under the indenture as well as under the other agreements related to the trust preferred capital securities, including but not limited to the guarantee agreement and the amended and restated declaration of trust of CB Financial Capital Trust I.

## **ARTICLE VII**

### **CONDITIONS PRECEDENT**

7.1 Conditions to Each Party's Obligation to Effect the Mergers. The respective obligations of the Parties to effect the transactions contemplated herein shall be subject to the satisfaction at or before the Effective Time of the following conditions:

(a) Providence Bank Shareholder Approvals. The Reorganization pursuant to the Plan, on substantially the terms and conditions of the Plan and this Agreement, shall have been approved by the requisites affirmative votes of the Providence Bank shareholders at the Providence Meeting.

(b) CB Shareholder Approval. The First Step Merger, on substantially the terms and conditions set forth in this Agreement, shall have been approved by the requisite affirmative votes of the holders of CB Common Stock.

(c) No Injunctions or Restraints; Illegality. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition (an "Injunction") preventing the consummation of the Reorganization or any of the Mergers or any of the other transactions contemplated by this Agreement shall be in effect. No statute, rule, regulation or Injunction shall have been enacted, entered, promulgated or enforced by any Governmental Entity that prohibits or makes illegal consummation of any of the Mergers.

7.2 Conditions to Obligations of Holdco, Merger Sub and Providence Bank. The obligation of Holdco and Merger Sub to effect the First Step Merger is also subject to the satisfaction or waiver by Holdco, at or before the Effective Time, of the following conditions:

(a) Representations and Warranties. Subject to the standard set forth in Section 9.2, the representations and warranties of CB and Cornerstone Bank set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date), and Holdco shall have received a certificate signed on behalf of CB by the President of CB to the foregoing effect.

(b) Performance of Obligations of CB. Each of CB and Cornerstone Bank shall have performed in all material respects all obligations required to be performed by it under this Agreement at or before the Effective Time; and Holdco shall have received a certificate signed on behalf of CB and Cornerstone Bank by the President of CB and Cornerstone Bank to such effect.

(c) Regulatory Approvals. All regulatory approvals set forth in Section 4.4 required to consummate the transactions contemplated by this Agreement, including the Reorganization and the Mergers, shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired (all such approvals and the expiration of all such waiting periods being referred to as the “Holdco Requisite Regulatory Approvals”), and no such regulatory approval shall have resulted in the imposition of any Materially Burdensome Regulatory Condition.

(d) Support Agreements. Each member of the CB Board shall have executed and delivered to Holdco a Support Agreement in the form attached as Exhibit B.

(e) Noncompete Agreements. Each non-employee member of the CB Board set forth on Section 6.12 of the CB Disclosure Schedule shall have executed and delivered a Non-Compete agreement in the form attached as Exhibit C. Mark A. Holmes and Christopher Robbins shall have entered into Non-Compete agreements reasonably acceptable to Providence Bank.

(f) Transaction Expenses. CB and Cornerstone Bank shall have incurred no more than \$300,000 in merger-related expenses, including but not limited to investment banking fees, financial advisory fees, legal fees, printing and postage and IT and data processing de-conversion and termination fees.

(g) Adversely Classified Assets. The Adversely Classified Assets of Cornerstone Bank as of the most recent month end preceding the Closing Date shall not exceed \$5,000,000. For the purposes of this item (g) “Adversely Classified Assets” means the sum of Cornerstone Bank’s loans that are “adversely classified” and the book value of its “Other Real Estate Owned.”

(h) Settlement Agreements. The Settlement Agreements shall have been executed by CB, Cornerstone Bank and the employees party thereto, and delivered to Holdco.

(i) Financing. Providence Bank shall have completed the Providence Offering and received gross proceeds of at least \$8,000,000 and shall have received such regulatory approvals, if any, as are required to declare and pay the Providence Dividend to Holdco.

7.3 Conditions to Obligations of CB. The obligation of CB to effect the First Step Merger is also subject to the satisfaction or waiver by CB at or before the Effective Time of the following conditions:

(a) Representations and Warranties. Subject to the standard set forth in Section 9.2, the representations and warranties of Holdco and Providence Bank set forth in this

Agreement shall be true and correct as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time (except that representations and warranties that by their terms speak specifically as of the date of this Agreement or another date shall be true and correct as of such date), and CB shall have received a certificate signed on behalf of Holdco and Providence Bank by the President and Chief Executive Officer of Holdco and Providence Bank to the foregoing effect.

(b) Performance of Obligations of Holdco. Each of Holdco, Merger Sub and Providence Bank shall have performed in all material respects all obligations required to be performed by it under this Agreement at or before the Effective Time, and CB shall have received a certificate signed on behalf of Holdco by the President and Chief Executive Officer of Holdco to such effect.

(c) Regulatory Approvals. All regulatory approvals set forth in Section 3.4 required to consummate the transactions contemplated by this Agreement, including the Reorganization and the Mergers, shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired (all such approvals and the expiration of all such waiting periods being referred to as the “CB Requisite Regulatory Approvals”), and no such regulatory approval shall have resulted in the imposition of any Materially Burdensome Regulatory Condition.

## **ARTICLE VIII**

### **TERMINATION AND AMENDMENT**

8.1 Termination. This Agreement may be terminated at any time before the Effective Time, whether before or after approval by the shareholders of CB of the matters presented in connection with the First Step Merger:

(a) Mutual Consent. By mutual consent of CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank in a written instrument, if their respective boards of directors so determine by a vote of the majority of the members of each such Board;

(b) No Regulatory Approval. By any Party, if any Governmental Entity that must grant a Holdco Requisite Regulatory Approval or a CB Requisite Regulatory Approval has denied approval of the Reorganization or any of the Mergers and such denial has become final and nonappealable or any Governmental Entity of competent jurisdiction shall have issued a final and nonappealable order permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement;

(c) Delay. By any Party, if the First Step Merger shall not have been consummated on or before April 30, 2018, unless the failure of the Closing to occur by such date shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth in this Agreement;

(d) Material Breach of Representation, Warranty or Covenant. By any Party, (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in this Agreement), if, subject to the standard set forth in Section 9.2, there shall have been a material breach of any of the covenants or

agreements or any of the representations or warranties set forth in this Agreement on the part of CB or Cornerstone Bank, in the case of a termination by Holdco or Providence Bank, or on the part of Holdco, Merger Sub or Providence Bank, in the case of a termination by CB or Cornerstone Bank, which material breach, either individually or in the aggregate, would result in, if occurring or continuing on the Closing Date, the failure of the conditions set forth in Sections 7.2(a) or 7.2(b) or Sections 7.3(a) or 7.3(b), as the case may be, and which is not cured within 30 days following written notice to the party committing such breach or by its nature or timing cannot be cured within such time period; or

(e) CB Failure to Recommend. By Holdco or Providence Bank, if the CB Board shall have (i) failed to recommend in the CB Proxy Statement, without modification or qualification, the approval and adoption of this Agreement and the First Step Merger or (ii) in a manner adverse to Holdco, (A) withdrawn, modified or qualified, or proposed to withdraw, modify or qualify, the recommendation by the CB Board of this Agreement and/or the First Step Merger to CB's shareholders, (B) taken any public action or made any public statement in connection with the CB Shareholder Meeting inconsistent with such recommendation or (C) recommended any Alternative Proposal (or, in the case of clause (ii), resolved to take any such action), whether or not permitted by the terms hereof.

8.2 Effect of Termination. If any Party terminates this Agreement as provided in Section 8.1, this Agreement shall forthwith become void and have no effect, and none of CB, Cornerstone Bank, Holdco, Providence Bank, Merger Sub, any of their respective Subsidiaries or any of the officers or directors of any of them shall have any liability of any nature whatsoever under this Agreement, or in connection with the transactions contemplated by this Agreement, except that (i) Sections 6.2(b), 8.2, 8.3, 9.3, 9.4, 9.5, 9.7, 9.8, 9.9, 9.10 and 9.11 shall survive any termination of this Agreement and (ii) no Party shall be relieved or released from any liabilities or damages arising out of its willful breach of any provision of this Agreement.

8.3 Fees and Expenses.

(a) Except as set forth in Section 8.3(b) and 8.3(c), all fees and expenses incurred in connection with the Mergers, this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such fees or expenses, whether or not any of the Mergers are consummated.

(b) CB shall pay to Providence Bank a termination fee in the amount of \$475,000 (the "Termination Fee") and the Providence Expense Reimbursement in immediately available federal funds if:

(i) (A) this Agreement is terminated by Holdco or Providence Bank pursuant to Section 8.1(d) or 8.1(e); and (B) (1) before such termination, an Alternative Transaction was commenced, publicly proposed or publicly disclosed (or an Alternative Proposal was received); and (2) within 9 months after such termination, (x) CB shall have entered into a definitive agreement relating to an Alternative Transaction or (y) any Alternative Transaction shall have been consummated; or

(ii) after receiving an Alternative Proposal, (A) the CB Board does not take action to convene the CB Shareholder Meeting and/or recommend that the shareholders of CB approve this Agreement and the First Step Merger, and (B) within 9 months after such receipt of such Alternative Proposal, (1) CB shall have entered into a definitive agreement relating to an Alternative Transaction or (2) any Alternative Transaction shall have been consummated.

Within five (5) Business Days following the event that triggers the payments described in this Section 8.3(b), Holdco shall deliver to CB written documentation of its expenses to be included in the Providence Expense Reimbursement. The Termination Fee and the Providence Expense Reimbursement must be paid no later than five (5) Business Days following CB's receipt from Holdco of such written documentation. Upon payment of the Termination Fee and the Providence Expense Reimbursement, CB, Cornerstone Bank and their respective directors, officers and employees shall have no further liability to Holdco, Providence Bank or Merger Sub at law or in equity with respect to such termination or any other provision of this Agreement, including, without limitation, with respect to CB Board's failure to take action to convene the CB Shareholder Meeting and/or recommend that shareholders of CB adopt this Agreement. "Providence Expense Reimbursement" means Holdco's and Providence Bank's reasonable documented out-of-pocket legal, due diligence, investment banking and consulting expenses (but excluding any amount attributable to time spent by officers or directors of Holdco or Providence Bank) incurred in connection with the transactions contemplated by this Agreement, but in no event shall the Providence Expense Reimbursement exceed \$250,000. The payment of the Providence Expense Reimbursement shall be in lieu of any other agreement among Holdco, Providence Bank, CB and Cornerstone Bank with respect to the payment of Holdco's expenses entered into before the date hereof.

(c) Providence Bank shall pay to CB the CB Expense Reimbursement in immediately available federal funds if this Agreement shall have been terminated by CB pursuant to Section 8.1(d). Within five (5) Business Days following the event that triggers the payment described in this Section 8.3(c), CB shall deliver to Providence Bank written documentation of its expenses to be included in the CB Expense Reimbursement. The CB Expense Reimbursement must be paid no later than five (5) Business Days following Providence Bank's receipt from CB of such written documentation. Upon payment of the CB Expense Reimbursement, Holdco, Providence Bank, Merger Sub and their respective officers, directors and employees shall have no further liability to CB or Cornerstone Bank at law or in equity with respect to such termination. For purposes of this Section 8.3(c), "CB Expense Reimbursement" means CB and Cornerstone Bank's reasonable documented out-of-pocket legal, due diligence, investment banking and consulting expenses (but excluding any amount attributable to time spent by CB's or Cornerstone Bank's officers or directors), incurred in connection with the transactions contemplated by this Agreement, but in no event shall the CB Expense Reimbursement exceed \$250,000. The payment of the CB Expense Reimbursement shall be in lieu of any other agreement among Holdco, Merger Sub, Providence Bank, CB and Cornerstone Bank with respect to the payment of CB's and Cornerstone Bank's expenses entered into before the date hereof.

(d) Providence Bank will pay to CB a termination fee in the amount of \$300,000 (the "Reverse Termination Fee") and the CB Expense Reimbursement in immediately

available federal funds if Providence Bank shall fail, on or before December 31, 2017, to: (i) complete the Providence Offering and receive gross proceeds of at least \$8,000,000 therefrom; or (ii) obtain such regulatory approvals, if any, as are required to declare and pay the Providence Dividend to Holdco.

(e) Each of CB, Cornerstone Bank, Holdco, Merger Sub and Providence Bank acknowledge that the agreements contained in this Section 8.3 are an integral part of the transactions contemplated by this Agreement and that, without these agreements, each would not enter into this Agreement. The amounts payable pursuant to Sections 8.3(b) and 8.3(c) constitute liquidated damages and not penalties and shall be the sole remedy of the party receiving such payments (with CB and Cornerstone Bank being deemed to be one party and Holdco and Providence Bank being deemed to be one party for such purposes) in the event of termination of this Agreement specified in such Sections. Accordingly, if a party fails to pay timely any amount due pursuant to this Section 8.3 and, in order to obtain such payment, the other party commences a suit that results in a final, nonappealable judgment against the party failing to pay for the amount payable to the complaining party pursuant to this Section 8.3, the party failing to pay shall pay to the complaining party its documented out-of-pocket costs and expenses (including reasonable attorneys' fees actually incurred and documented out-of-pocket expenses) in connection with such suit, together with interest on the Termination Fee and the Providence Expense Reimbursement or the CB Expense Reimbursement, as applicable, and such costs and expenses at the prime rate (as published in The Wall Street Journal on the date of termination) plus 2%.

8.4 Amendment. This Agreement may be amended by the Parties hereto, by action taken or authorized by the CB Board, the Cornerstone Bank Board, the Holdco Board, the Merger Sub Board and the Providence Bank Board, at any time before or after approval of the matters presented in connection with the First Step Merger by the shareholders of CB; provided, however, that after any approval of the transactions contemplated by this Agreement by the shareholders of CB, there may not be, without further approval of such shareholders, any amendment of this Agreement that (a) alters or changes the amount or form of the Merger Consideration to be delivered under this Agreement to the holders of CB Common Stock, if such alteration or change would adversely affect the holders of any security of CB, or (b) alters or changes any of the terms and conditions of this Agreement if such alteration or change would adversely affect the holders of any securities of CB, in each case other than as contemplated by this Agreement. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the Parties.

8.5 Extension; Waiver. At any time before the Effective Time, any of the Parties, by action taken or authorized by the CB Board, the Cornerstone Bank Board, the Holdco Board, the Merger Sub Board and/or Providence Bank Board, as applicable, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other, (b) waive any inaccuracies of the other in the representations and warranties contained in this Agreement or (c) waive compliance by any other Party with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a Party to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such Party, but such extension or waiver or failure to insist on strict compliance with an

obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

## **ARTICLE IX** **GENERAL PROVISIONS**

9.1 Closing. On the terms and subject to conditions set forth in this Agreement, the closing of the First Step Merger (the “Closing”) shall take place on a date and at a place to be specified by the Parties, which date shall be no later than five (5) Business Days after the satisfaction or waiver (subject to applicable law) of the latest to occur of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied or waived at the Closing), unless extended by mutual agreement of the parties (the “Closing Date”). If the conditions set forth in Article VII are satisfied or waived during the two weeks immediately before the end of a fiscal quarter of Providence Bank, then Holdco or Providence Bank may postpone the Closing until the first full week after the end of that fiscal quarter.

9.2 Standard. No representation or warranty of CB, Cornerstone Bank, Holdco, Providence Bank or Merger Sub contained in this Agreement shall be deemed untrue or incorrect for any purpose under this Agreement, and no Party shall be deemed to have breached a representation or warranty for any purpose under this Agreement, in any case as a consequence of the existence or absence of any fact, circumstance or event unless such fact, circumstance or event, individually or when taken together with all other facts, circumstances or events inconsistent with any representations or warranties contained in Article III, in the case of CB and Cornerstone Bank, or Article IV, in the case of Holdco, Providence Bank and Merger Sub, has had or would be reasonably likely to have a Material Adverse Effect with respect to CB and/or Cornerstone Bank or Holdco, Providence Bank and/or Merger Sub, respectively (disregarding for purposes of this Section 9.2 any materiality or Material Adverse Effect qualification contained in any representations or warranties). Notwithstanding the immediately preceding sentence, the representations and warranties contained in (x) Section 3.2(a) and Section 3.2(c), in the case of CB and Cornerstone Bank, and Section 4.2, in the case of Holdco, Providence Bank and Merger Sub, shall be deemed untrue and incorrect if not true and correct in all respects, (y) Sections 3.3(a), 3.3(b) and 3.7, in the case of CB and Cornerstone Bank, and Section **Error! Reference source not found.**, in the case of Holdco, Providence Bank and Merger Sub, shall be deemed untrue and incorrect if not true and correct in all material respects and (z) Section 3.8(a), in the case of CB and Cornerstone Bank shall be deemed untrue and incorrect if not true and correct in all respects.

9.3 Nonsurvival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and agreements set forth in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time, except for Section 6.6 and for those other covenants and agreements contained in this Agreement that by their terms apply or are to be performed in whole or in part after the Effective Time.

9.4 Notices. All notices and other communications in connection with this Agreement shall be in writing and shall be deemed given if delivered personally, by electronic mail, sent via facsimile (with confirmation), mailed by registered or certified mail (return receipt

requested) or delivered by an express courier (with confirmation) to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

(a) if to CB or Cornerstone Bank, to:

CB Financial Corporation  
3710 Nash St. North  
Wilson, NC 27896  
Attention: Mark A. Holmes, President  
E-mail: mholmes@thecornerstonebank.com

with a copy to:

Brooks, Pierce, McLendon, Humphrey & Leonard, L.L.P.  
230 North Elm Street, Suite 2000  
Greensboro, NC 27401  
Attention: Robert A. Singer  
Email: rsinger@brookspierce.com

and

(b) if to Holdco, Merger Sub or Providence Bank, to:

Providence Bank  
P.O. Box 7727  
Rocky Mount, NC 27804  
Attention: Ted E. Whitehurst, President & Chief Executive Officer  
E-mail: twhitehurst@pbknc.com

with a copy to:

Wyrick Robbins Yates & Ponton LLP  
4101 Lake Boone Trail, Suite 300  
Raleigh, NC 27607  
Attention: Todd H. Eveson  
E-mail: teveson@wyrick.com

9.5 Interpretation. When a reference is made in this Agreement to Articles, Sections, Exhibits or Schedules, such reference shall be to an Article or 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 shall not affect in any way the meaning or interpretation 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.” The CB Disclosure Schedule, as well as all other Schedules and all Exhibits hereto, shall be deemed part of this Agreement and included in any reference to this Agreement. This



Agreement shall not be interpreted or construed to require any person to take any action, or fail to take any action, if to do so would violate any applicable law. For purposes of this Agreement, (a) “Person” means an individual, corporation, partnership, limited liability company, joint venture, association, estate, trust, governmental body or agency, unincorporated organization or other entity (including its permitted successors and assigns) and (b) “knowledge” of any Person that is an individual means the actual knowledge (without investigation) of such individual and that is not an individual means the actual knowledge (without investigation) of such Person’s directors and senior executive officers.

9.6 Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other party, it being understood that each party need not sign the same counterpart.

9.7 Entire Agreement. This Agreement (including the CB Disclosure Schedule, the Providence Bank Disclosure Schedule, and their respective Exhibits hereto and the other documents and the instruments referred to in this Agreement), together with the Mutual Nondisclosure Agreement, constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter of this Agreement, other than the Mutual Nondisclosure Agreement.

9.8 Governing Law; Jurisdiction. This Agreement shall be governed and construed in accordance with the internal laws of the State of North Carolina applicable to contracts made and wholly performed within such state, without regard to any applicable conflicts-of-law principles. The parties agree that any suit, action or proceeding brought by a party to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby shall be brought in any federal or state court located in Raleigh, North Carolina. Each of the parties submits to the jurisdiction of any such court in any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of, or in connection with, this Agreement or the transactions contemplated hereby and hereby irrevocably waives the benefit of jurisdictional rights derived from present or future domicile or otherwise in such action or proceeding. Each party irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

9.9 Publicity. No Party shall, and no Party shall permit any of its Subsidiaries to, issue or cause the publication of any press release or other public announcement with respect to the transactions contemplated by this Agreement without the prior consent (which consent shall not be unreasonably withheld) of Providence Bank, in the case of a proposed announcement by CB or Cornerstone Bank, or CB, in the case of a proposed announcement by Holdco or Providence Bank; provided, however, that any Party may, without the prior consent of any other Party (but after prior consultation to the extent practicable under the circumstances) issue or cause the publication of any press release or other public announcement to the extent required by law.

9.10 Assignment; Third-Party Beneficiaries.

(a) Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned by any of the Parties (whether by operation of law or otherwise) without the prior written consent of the other Parties. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by each of the Parties and their respective successors and assigns. Except as otherwise specifically provided in Section 6.5, this Agreement (including the documents and instruments referred to in this Agreement) is not intended to and does not confer upon any person other than the Parties any rights or remedies under this Agreement.

(b) No provision in this Agreement modifies or amends or creates any employee benefit plan, program or document ("Benefit Plan") unless this Agreement explicitly states that the provision "amends" or "creates" that Benefit Plan, and no third party shall be entitled to enforce any provision of this Agreement on the grounds that it is an amendment to, or a creation of, a Benefit Plan, unless that provision explicitly states that such enforcement rights are being conferred. This provision shall not prevent the parties to this Agreement from enforcing any provision of this Agreement. If a Person not entitled to enforce this Agreement brings a lawsuit or other action to enforce any provision in this Agreement as an amendment to, or creation of a Benefit Plan, and that provision is construed to be such an amendment or creation despite not being explicitly designated as one in this Agreement, that provision shall lapse retroactively, thereby precluding it from having any effect.

9.11 Enforcement. The Parties 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. Accordingly, each of the Parties shall be entitled to specific performance of the terms hereof, including an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which such Party is entitled at law or in equity. Each of the Parties hereby further waives (a) any defense in any action for specific performance that a remedy at law would be adequate and (b) any requirement under any law to post security as a prerequisite to obtaining equitable relief.

*[Remainder of this page intentionally left blank]*

IN WITNESS WHERE, each of CB, Cornerstone Bank, Holdco and Providence Bank have caused this Agreement to be executed by their respective duly authorized officers as of the date first above written.

**CB FINANCIAL CORPORATION**

By: \_\_\_\_\_  
Name: Mark A. Holmes  
Title: President

**CORNERSTONE BANK**

By: \_\_\_\_\_  
Name: Mark A. Holmes  
Title: President

**PB FINANCIAL CORPORATION**

By: \_\_\_\_\_  
Name: Ted E. Whitehurst  
Title: President & Chief Executive Officer

**PROVIDENCE BANK**

By: \_\_\_\_\_  
Name: Ted E. Whitehurst  
Title: President & Chief Executive Officer

**PB ACQUISITION CORP. I**

By: \_\_\_\_\_  
Name: Ted E. Whitehurst  
Title: President

**EXHIBIT A**

**BANK MERGER AGREEMENT**

[Attached]

**EXHIBIT B**  
**SUPPORT AGREEMENT**

[Date]

PB Financial Corporation  
Providence Bank  
P.O. Box 7727  
Rocky Mount, NC 27804-0727

Ladies and Gentlemen:

The undersigned is a director of CB Financial Corporation, a North Carolina corporation ("CB"), and the beneficial holder of shares of common stock of CB (the "CB Common Stock").

PB Financial Corporation, a North Carolina corporation ("Holdco"), and CB are considering the execution of an Agreement and Plan of Combination and Reorganization (the "Agreement") contemplating the acquisition of CB through the merger of PB Acquisition Corp. I, a North Carolina corporation ("Merger Sub"), with and into CB (the "First Step Merger"), and the subsequent merger of CB with and into Holdco (the "Holding Company Merger") followed by the merger of Cornerstone Bank into Providence Bank (the "Bank Merger"). The consummation of the First Step Merger pursuant to the Agreement by Holdco is subject to the execution and delivery of this letter agreement.

In consideration of the substantial expenses that Holdco will incur in connection with the transactions contemplated by the Agreement and to induce Holdco to consummate the transactions contemplated by the Agreement and to proceed to incur such expenses, the undersigned agrees and undertakes, in his or her capacity as a shareholder of CB, and not in his or her capacity as a director or officer of CB, as follows:

1. While this letter agreement is in effect, the undersigned shall not, directly or indirectly, except with the prior approval of Holdco, which approval shall not be unreasonably withheld, (a) sell or otherwise dispose of or encumber (other than in connection with an ordinary bank loan) before the record date of the meeting of CB's shareholders to approve the First Step Merger (the "CB Shareholder Meeting") any or all of his or her shares of CB Common Stock or (b) deposit any shares of CB Common Stock into a voting trust or enter into a voting agreement or arrangement with respect to any shares of CB Common Stock or grant any proxy with respect thereto, other than for the purpose of voting to approve the Agreement and the First Step Merger and matters related thereto.

2. While this letter agreement is in effect, the undersigned shall vote all of the shares of CB Common Stock for which the undersigned has sole voting authority and shall use his or

her best efforts to cause to be voted all of the shares of CB Common Stock for which the undersigned has shared voting authority, in either case whether such shares are beneficially owned by the undersigned on the date of this letter agreement or are subsequently acquired: (a) for the approval of the Agreement and the First Step Merger at the CB Shareholder Meeting; and (b) against any Alternative Transaction (as defined in the Agreement).

3. The undersigned hereby waives any rights of appraisal and all rights to dissent from the First Step Merger that the undersigned may have.

4. The undersigned acknowledges and agrees that any remedy at law for breach of the foregoing provisions shall be inadequate and that, in addition to any other relief which may be available, Holdco shall be entitled to temporary and permanent injunctive relief without having to prove actual damages.

5. The foregoing restrictions shall not apply to shares with respect to which the undersigned may have voting power as a fiduciary for others. In addition, this letter agreement shall only apply to actions taken by the undersigned in his or her capacity as a shareholder of CB and shall not in any way limit or affect actions the undersigned may take in his or her capacity as a director or officer of CB.

6. This letter agreement, and all rights and obligations of the parties hereunder, shall terminate upon the first to occur of (a) the Effective Time (as defined in the Agreement) of the First Step Merger or (b) the date upon which the Merger Agreement is terminated in accordance with its terms, in which event the provisions of this Agreement shall terminate.

7. As of the date hereof, the undersigned has voting power (sole or shared) with respect to the number of shares of CB Common Stock set forth below.

***[Remainder of this page intentionally left blank]***

IN WITNESS WHEREOF, the undersigned has executed this agreement as of the date first above written.

Very truly yours,

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

Number of shares owned with sole voting authority:

\_\_\_\_\_

Number of shares owned with shared voting  
authority:

\_\_\_\_\_

Accepted and agreed to as of  
the date first above written:

PB FINANCIAL CORPORATION

By: \_\_\_\_\_

Name: Ted E. Whitehurst

Title: President & Chief Executive Officer





## **EXHIBIT C**

### **DIRECTOR'S AGREEMENT**

THIS DIRECTOR'S AGREEMENT (this "Agreement") is entered into by and between PB Financial Corporation, a North Carolina corporation ("Holdco"), and the undersigned individual ("Director"). Capitalized terms used but not defined herein shall have the same meanings provided in the Merger Agreement (as defined below).

WHEREAS, Holdco, PB Acquisition Corp. I, a North Carolina corporation ("Merger Sub"), Providence Bank, a North Carolina commercial bank, CB Financial Corporation, a North Carolina corporation ("CB"), and Cornerstone Bank ("Cornerstone Bank") are parties to an Agreement and Plan of Combination and Reorganization dated as of \_\_\_\_\_, 2017, as the same may be amended or supplemented in accordance with its terms (the "Merger Agreement");

WHEREAS, Director is a director and shareholder of CB and is receiving Merger Consideration pursuant to the terms and conditions of the Merger Agreement; and

WHEREAS, as a condition for and an inducement to Holdco to effect the First Step Merger, Director has agreed to enter into and be bound by this Agreement.

IN CONSIDERATION of the foregoing premises and for other good and valuable consideration, including, without limitation, the Merger Consideration to be received by Director, the sufficiency and receipt of which are hereby acknowledged, Holdco and Director, intending to be legally bound, agree as follows:

1. Contingent on First Step Merger. This Agreement shall become effective at the Effective Time. If the Merger Agreement is terminated, then this Agreement shall be *void ab initio* and of no force or effect.

2. Noncompetition.

(a) Director covenants and agrees that, during the Restricted Period (as defined below), Director shall not (except as required to carry out Director's assigned duties with Holdco or Providence Bank, if any): (i) engage in any aspect of the Restricted Business (as defined below) within the Prohibited Territory (as defined below); and/or (ii) as an employee, agent, partner, shareholder, member, investor, director, consultant or otherwise assist others to engage in the Restricted Business within the Prohibited Territory. Notwithstanding the preceding, owning the stock or options to acquire stock totaling less than one percent (1%) of the outstanding shares in a public company (excluding stock owned prior to the date of the Merger Agreement) shall not by itself be considered engaging in, or assisting others to engage in, the Restricted Business.

(b) "Restricted Period" means a period of one (1) year following the Effective Time.

(c) “Restricted Business” means the business that was engaged in by CB or Cornerstone Bank immediately before the Effective Time. Director acknowledges and agrees that Cornerstone Bank was, immediately before the Effective Time, engaged in the business of providing business banking, personal banking, commercial lending, consumer lending, and mortgage lending.

(d) “Prohibited Territory” means Wilson, NC and Rocky Mount, NC and Tarboro, NC and Nashville, NC and Wilson County, NC and Nash County, NC and Edgecombe County, NC. Director acknowledges and agrees that Cornerstone Bank was actively engaged in the Restricted Business throughout the Prohibited Territory immediately before the Effective Time.

3. Noninterference with Customers. Director covenants and agrees that, during the Restricted Period, Director shall not, directly or indirectly: (i) solicit, encourage or induce any Restricted Customer (as defined below) to obtain any services or products related to the Restricted Business from any entity other than Providence Bank; or (ii) sell or provide to any Restricted Customer any services or products related to the Restricted Business, other than on behalf of and for the benefit of Providence Bank. “Restricted Customer” means any person or entity that was a customer of Cornerstone Bank at any point during the 90 days preceding the Effective Time and: (i) with whom Director had material business contact or communications on behalf of Cornerstone Bank at any time during the two-year period preceding the Effective Time (the “Look-Back Period”); or (ii) about whom Director obtained any Confidential Information (as defined below) at any time during the Look-Back Period. Director covenants and agrees that, during the Restricted Period, Director shall not, directly or indirectly: (a) solicit or induce any employee of Holdco or Providence Bank who was an employee of CB or Cornerstone Bank immediately before the Effective Time (each, a “Restricted Employee”) to leave or limit his or her employment relationship with Holdco or Providence Bank; or (b) hire any Restricted Employee as an employee or engage any Restricted Employee as an independent contractor; provided, that this prohibition shall not apply to: (i) advertisements for employees or independent contractors placed in publications of general circulation or in trade journals, or other means not directed specifically at any such Restricted Employee, (ii) contact initiated by such Restricted Employee, or (iii) the hiring or engaging of any such Restricted Employee as a result of item (i) or (ii).

4. Confidential Information. Director covenants and agrees that, during the Restricted Period: (i) Director shall keep strictly confidential and not disclose to any person or entity not employed by Holdco or Providence Bank any Confidential Information; and (ii) Director shall not use personally or for any other person or entity any Confidential Information. However, this provision shall not preclude Director from: (x) the use or disclosure of information known generally to the public (other than information known generally to the public as a result of Director’s violation of this section) or (y) any disclosure required by law or court order so long as Director provides Holdco’s President and Chief Executive Officer prompt advance written notice of any potential disclosure under this subsection, except where such advance notice would be prohibited by law. “Confidential Information” means all information not generally known or available in the marketplace that was furnished to, obtained by or created by

Director in connection with Director being a director of CB that could be used to compete against or cause competitive harm to CB, Cornerstone Bank, Holdco or Providence Bank. Confidential Information includes, by way of illustration, such information relating to: (i) CB's, Holdco's and their Subsidiaries' customers, including customer lists, contact information, contractual terms and information regarding products or services provided to such customers; (ii) CB's, Holdco's and their Subsidiaries' finances, including nonpublic financial statements, balance sheets, sales data, forecasts and cost analyses; (iii) CB's, Holdco's and their Subsidiaries' plans and projections related to growth, new products and services, and potential sales/acquisitions; and (iv) CB's, Holdco's and their Subsidiaries' pricing and fee strategies, operating processes, legal affairs, lending and credit information, commission structure, personnel matters, loan portfolios, contracts, services, products and operating results.

5. Reasonableness and Breach. Director acknowledges that the restrictions herein are fair, reasonable, and necessary for the protection of Holdco and its acquisition of CB and Cornerstone Bank, and constitute a material inducement for Holdco to effect the Merger and provide the Merger Consideration. Therefore, Director agrees not to contest the enforceability of this Agreement in any forum. Director further acknowledges and agrees that a breach of any of such obligations and agreements will result in irreparable harm and continuing damage to Holdco for which there will be no adequate remedy at law and further agrees that in the event of any breach of such obligations and agreements, Holdco and its successors and assigns will be entitled to injunctive relief and to such other relief as is proper under the circumstances. Director acknowledges and agrees that the covenants in this Agreement are direct consideration for a sale of a business and should be governed by standards applicable to restrictive covenants entered into in connection with a sale of a business.

6. Judicial Modification. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or incapable of being enforced, then the parties request that such court modify such provision by "blue-penciling" or otherwise in order to render such provision not invalid or incapable of being enforced and then enforce the provision as modified. The parties further agree that each provision of this Agreement is severable from each other provision of this Agreement.

7. Assignment. Holdco each shall have the right to assign or transfer this Agreement to any affiliated entity or any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise), and Director irrevocably consents to any such assignment or transfer. In the event of such assignment or transfer, "Holdco" shall mean the entity to which this Agreement is so assigned or transferred.

8. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina without regard to any conflict-of-law rules.

9. Waiver; Construction. No modification, termination or attempted waiver of any of the provisions of this Agreement shall be binding unless reduced to writing and signed by the parties. This Agreement shall be construed according to a plain reading of its terms and no

presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision in this Agreement.

10. Entire Agreement. This Agreement (including the recitals, which are hereby incorporated by reference) and the Merger Agreement constitute the entire agreement among the parties pertaining to the subject matters contained herein.

**IN WITNESS WHEREOF**, the undersigned hereto sets his or her hand as of the date set forth below.

**DIRECTOR**

\_\_\_\_\_  
[NAME]

Date: \_\_\_\_\_, 2017

**PB FINANCIAL CORPORATION**

By: \_\_\_\_\_  
Name: Ted E. Whitehurst  
Title: President & Chief Executive Officer

## **Appendix B**

### **Fairness Opinion of Smith Capital, Inc.**



Board of Directors  
CB Financial Corporation  
3710 Nash Street North  
Wilson  
North Carolina, 27896  
July 31, 2017

Ladies and Gentlemen:

CB Financial Corporation (the "Company" or "CB"), Cornerstone Bank ("Cornerstone Bank") a wholly owned subsidiary of CB, PB Financial Corporation, ("Holdco"), Providence Bank ("Providence Bank") and PB Acquisition Corp. I, a wholly-owned subsidiary of Holdco ("Merger Sub"), are proposing to enter into an Agreement and Plan of Combination and Reorganization (the "Agreement") dated July 31, 2017 pursuant to which Merger Sub will merge with and into Company (the "First Step Merger") and immediately thereafter CB will merge with and into Holdco (the Holding Company Merger"), referred to collectively as the "Mergers".

Upon the Effective Time of the First Step Merger, each share of Company common stock, no par value per share ("Company Common Stock"), shall be converted into the right to receive \$0.235 in cash (the "Per Share Merger Consideration"). Capitalized terms used herein without definition shall have the meanings assigned to them in the Agreement. The terms and conditions of the Mergers are more fully set forth in the Agreement. You have requested our opinion as to the fairness ("Opinion"), from a financial point of view, of the Per Share Merger Consideration to the holders of Company Common Stock in the First Step Merger.

Smith Capital, Inc. ("SCI", "we" or "our"), as part of its advisory business, is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions. In connection with this opinion, we have reviewed and considered, among other things: (i) a final draft of the Agreement, dated July 31, 2017 version 9; (ii) certain publicly available financial statements and other historical financial information of the Company that we deemed relevant; (iii) certain publicly available financial statements and other historical financial information of Providence Bank, that we deemed relevant; (iv) internal financial projections for the Company for the years ending December 31, 2017 through December 31, 2022, as well as projections prepared for asset liability modelling from June 30, 2017 through June 30, 2022, as provided by the senior management of the Company; (v) the pro forma financial impact of the First Step Merger on Providence Bank's capital ratios; (vi) a comparison of certain financial information for the Company with similar institutions for which publicly available information is available; (vii) the financial terms of certain recent business combinations in the commercial banking industry (on a regional and nationwide basis), to the extent publicly available; (viii) the current market environment generally and the banking environment in particular; and (ix) such other information, financial studies, analyses and investigations and financial, economic and market criteria as we considered relevant. We also discussed with certain members of senior management of the Company the business, financial condition, results of operations and prospects of the Company and of Providence Bank.

In performing our review, we have relied upon the accuracy and completeness of all of the financial and other information that was available to and reviewed by us from public sources, that was provided to us by the Company or Providence Bank or their respective representatives or that was otherwise reviewed by us and we have assumed such accuracy and completeness for purposes of rendering this

opinion without any independent verification or investigation. We have relied, at the direction of the Company, without independent verification or investigation, on the assessments of the management of the Company as to its existing and future relationships with key employees and partners, clients, products and services and we have assumed, with your consent, that there will be no developments with respect to any such matters that would affect our analyses or opinion. We have further relied on the assurances of the respective managements of the Company and Providence Bank that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. We have relied upon and assumed, with your consent, that the Agreement, when executed by the parties thereto, will conform to the draft reviewed by us in all respects material to our analyses. We have not been asked to and have not undertaken an independent verification of any of such information and we do not assume any responsibility or liability for the accuracy or completeness thereof. We did not make an independent evaluation or perform an appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of the Company or Providence Bank or any of their respective subsidiaries, nor have we been furnished with any such evaluations or appraisals. We render no opinion or evaluation on the collectability of any assets or the future performance of any loans of the Company or Providence Bank. We did not make an independent evaluation of the adequacy of the allowance for loan losses of the Company or Providence Bank, or the combined entity after the Mergers and we have not reviewed any individual credit files relating to the Company or Providence Bank. We have assumed, with your consent, that the respective allowances for loan losses for both the Company and Providence Bank are adequate to cover such losses and will be adequate on a pro forma basis for the combined entity.

In preparing its analyses, SCI used internal financial projections for Company for the years ending December 31, 2016 through December 31, 2022 as provided by the senior management of Company. With respect to those projections and estimates, the senior management of Company confirmed to us that those projections and estimates reflected the best currently available projections and estimates of senior management of the future financial performance of Company, and we assumed that such projections were reasonably prepared in good faith and such performance would be achieved. We express no opinion as to such projections or estimates, or the assumptions on which they are based. We have also assumed that there has been no material change in Company's or Providence Bank's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to us, and that there is no information or any facts that would make any of the information reviewed by us in complete or misleading. We have assumed that Providence Bank will raise capital as described in the Agreement. We have assumed in all respects material to our analysis that Company and Providence Bank will remain as going concerns for all periods relevant to our analyses. We have assumed there will be no changes in federal or state tax rates, and have not considered the impact of any possible future changes.

We have also assumed, with your consent, that (i) each of the parties to the Agreement will comply in all material respects with all material terms and conditions of the Agreement and all related agreements, that all of the representations and warranties contained in such agreements are true and correct in all material respects, that each of the parties to such agreements will perform in all material respects all of the covenants and other obligations required to be performed by such party under such agreements and that the conditions precedent in such agreements are not and will not be waived, (ii) in the course of obtaining the necessary regulatory or third party approvals, consents and releases with respect to the Mergers, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the Company, Providence Bank or the Mergers or any related transaction, and (iii) the Mergers and any related transaction will be consummated in accordance with the terms of the



Agreement without any waiver, modification or amendment of any material term, condition or agreement thereof and in compliance with all applicable laws and other requirements. Finally, with your consent, we have relied upon the advice that the Company has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the Mergers and the other transactions contemplated by the Agreement.

Our Opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof could materially affect this opinion. We have not undertaken to update, revise, reaffirm or withdraw this opinion or otherwise comment upon events occurring after the date hereof.

We did not act as the Company's financial advisor in connection with the Mergers. We are solely providing our Opinion to the Board of Directors of the Company for which we will receive a fee payable upon delivery of the Opinion. The Company has also agreed to indemnify us against certain claims and liabilities arising out of our engagement and to reimburse us for certain of our out-of-pocket expenses incurred in connection with our engagement.

Our Opinion is directed to the Board of Directors of Company in connection with its consideration of the Agreement and Mergers and does not constitute a recommendation to any shareholder of the Company as to how any such shareholder should vote at any meeting of shareholders called to consider and vote upon the adoption of the Agreement and approval of the Mergers. Our Opinion is directed only to the fairness, from a financial point of view, of the Per Share Merger Consideration to the holders of the Company Common Stock in the First Step Merger and does not address the underlying business decision of the Company to engage in the Mergers, the form or structure of the Mergers or any other transactions contemplated in the Agreement, the relative merits of the Mergers as compared to any other alternative transactions or business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage. We also do not express any opinion as to the amount of compensation to be received in the Mergers by any Company or Providence Bank officer, director or employee, or any class of such persons, if any, relative to the amount of compensation to be received by any other shareholder. This Opinion shall not be reproduced without SCI's prior written consent, provided however SCI will provide its consent for the Opinion to be included in regulatory filings to be completed in connection with the Mergers.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Per Share Merger Consideration to be paid in the First Step Merger is fair to holders of the Company Common Stock from a financial point of view.

Very truly yours,

/s/ Alison Smith

Smith Capital, Inc.



## **Appendix C**

### **Article 13 of the North Carolina Business Corporation Act: Appraisal Rights**



## APPENDIX C

### CHAPTER 55. NORTH CAROLINA BUSINESS CORPORATION ACT

#### ARTICLE 13. APPRAISAL RIGHTS

##### PART 1. RIGHT TO APPRAISAL AND PAYMENT FOR SHARES

###### § 55-13-01. Definitions

In this Article, the following definitions apply:

(1) Affiliate. -- A person that directly, or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with another person or is a senior executive thereof. For purposes of *G.S. 55-13-01(7)*, a person is deemed to be an affiliate of its senior executives.

(2) Beneficial shareholder. -- A person who is the beneficial owner of shares held in a voting trust or by a nominee on the beneficial owner's behalf.

(3) Corporation. -- The issuer of the shares held by a shareholder demanding appraisal and, for matters covered in *G.S. 55-13-22* through *G.S. 55-13-31*, the term includes the surviving entity in a merger.

(4) Expenses. -- Reasonable expenses of every kind that are incurred in connection with a matter, including counsel fees.

(5) Fair value. -- The value of the corporation's shares (i) immediately before the effectuation of the corporate action as to which the shareholder asserts appraisal rights, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable, (ii) using customary and current valuation concepts and techniques generally employed for similar business in the context of the transaction requiring appraisal, and (iii) without discounting for lack of marketability or minority status except, if appropriate, for amendments to the articles pursuant to *G.S. 55-13-02(a)(5)*.

(6) Interest. -- Interest from the effective date of the corporate action until the date of payment, at the rate of interest on judgments in this State on the effective date of the corporate action.

(7) Interested transaction. -- A corporate action described in *G.S. 55-13-02(a)*, other than a merger pursuant to *G.S. 55-11-04*, involving an interested person and in which any of the shares or assets of the corporation are being acquired or converted. As used in this definition, the following definitions apply:

a. Interested person. -- A person, or an affiliate of a person, who at any time during the one-year period immediately preceding approval by the board of directors of the corporate action met any of the following conditions:

1. Was the beneficial owner of twenty percent (20%) or more of the voting power of the corporation, other than as owner of excluded shares.

2. Had the power, contractually or otherwise, other than as owner of excluded shares, to cause the appointment or election of twenty-five percent (25%) or more of the directors to the board of directors of the corporation.

3. Was a senior executive or director of the corporation or a senior executive of any affiliate thereof, and that senior executive or director will receive, as a result of the corporate action, a financial benefit not generally available to other shareholders as such, other than any of the following:

I. Employment, consulting, retirement, or similar benefits established separately and not as part of or in contemplation of the corporate action.

II. Employment, consulting, retirement, or similar benefits established in contemplation of, or as part of, the corporate action that are not more favorable than those existing before the corporate action or, if more favorable, that have been approved on behalf of the corporation in the same manner as is provided in *G.S. 55-8-31(a)(1)* and (c).

III. In the case of a director of the corporation who will, in the corporate action, become a director of the acquiring entity, or one of its affiliates, rights and benefits as a director that are provided on the same basis as those afforded by the acquiring entity generally to other directors of the acquiring entity or such affiliate of the acquiring entity.

b. Beneficial owner. -- Any person who, directly or indirectly, through any contract, arrangement, or understanding, other than a revocable proxy, has or shares the power to vote, or to direct the voting of, shares. If a member of a national securities exchange is precluded by the rules of the exchange from voting without instruction on contested matters or matters that may affect substantially the rights or privileges of the holders of the securities to be voted, then that member of a national securities exchange shall not be deemed a "beneficial owner" of any securities held directly or indirectly by the member on behalf of another person solely because the member is the record holder of the securities. When two or more persons agree to act together for the purpose of voting their shares of the corporation, each member of the group formed thereby is deemed to have acquired beneficial ownership, as of the date of the agreement, of all voting shares of the corporation beneficially owned by any member of the group.

c. Excluded shares. -- Shares acquired pursuant to an offer for all shares having voting power if the offer was made within one year prior to the corporate action for consideration of the same kind and of a value equal to or less than that paid in connection with the corporate action.

(8) Preferred shares. -- A class or series of shares the holders of which have preference over any other class or series with respect to distributions.

(9) Record shareholder. -- The person in whose name shares are registered in the records of the corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with the corporation.

(10) Senior executive. -- The chief executive officer, chief operating officer, chief financial officer, or anyone in charge of a principal business unit or function.

(11) Shareholder. -- Both a record shareholder and a beneficial shareholder.

#### **§ 55-13-02. Right to appraisal**

(a) In addition to any rights granted under Article 9, a shareholder is entitled to appraisal rights and to obtain payment of the fair value of that shareholder's shares, in the event of any of the following corporate actions:

(1) Consummation of a merger to which the corporation is a party if either (i) shareholder approval is required for the merger by *G.S. 55-11-03* and the shareholder is entitled to vote on the merger, except that appraisal rights shall not be available to any shareholder of the corporation with respect to shares of any class or series that remain outstanding after consummation of the merger or (ii) the corporation is a subsidiary and the merger is governed by *G.S. 55-11-04*.

(2) Consummation of a share exchange to which the corporation is a party as the corporation whose shares will be acquired if the shareholder is entitled to vote on the exchange, except that appraisal rights shall not be available to any shareholder of the corporation with respect to any class or series of shares of the corporation that is not exchanged.

(3) Consummation of a disposition of assets pursuant to *G.S. 55-12-02* if the shareholder is entitled to vote on the disposition.

(4) An amendment of the articles of incorporation (i) with respect to a class or series of shares that reduces the number of shares of a class or series owned by the shareholder to a fraction of a share if the corporation has an obligation or right to repurchase the fractional share so created or (ii) changes the corporation into a nonprofit corporation or cooperative organization.

(5) Any other amendment to the articles of incorporation, merger, share exchange, or disposition of assets to the extent provided by the articles of incorporation, bylaws, or a resolution of the board of directors.

(6) Consummation of a conversion to a foreign corporation pursuant to Part 2 of Article 11A of this Chapter if the shareholder does not receive shares in the foreign corporation resulting from the conversion that (i) have terms as favorable to the shareholder in all material respects and (ii) represent at least the same percentage interest of the total voting rights of the outstanding shares of the corporation as the shares held by the shareholder before the conversion.

(7) Consummation of a conversion of the corporation to nonprofit status pursuant to Part 2 of Article 11A of this Chapter.

(8) Consummation of a conversion of the corporation to an unincorporated entity pursuant to Part 2 of Article 11A of this Chapter.

(b) Notwithstanding subsection (a) of this section, the availability of appraisal rights under subdivisions (1), (2), (3), (4), (6), and (8) of subsection (a) of this section shall be limited in accordance with the following provisions:

(1) Appraisal rights shall not be available for the holders of shares of any class or series of shares that are any of the following:

a. A covered security under section 18(b)(1)(A) or (B) of the Securities Act of 1933, as amended.

b. Traded in an organized market and has at least 2,000 shareholders and a market value of at least twenty million dollars (\$ 20,000,000)(exclusive of the value of shares held by the corporation's subsidiaries, senior executives, directors, and beneficial shareholders owning more than ten percent (10%) of such shares).

c. Issued by an open-end management investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended, and may be redeemed at the option of the holder at net asset value.

(2) The applicability of subdivision (1) of this subsection shall be determined as of (i) the record date fixed to determine the shareholders entitled to receive notice of, and to vote at, the meeting of shareholders to act upon the corporate action requiring appraisal rights or (ii) the day before the effective date of such corporate action if there is no meeting of shareholders.

(3) Subdivision (1) of this subsection shall not be applicable and appraisal rights shall be available pursuant to subsection (a) of this section for the holders of any class or series of shares who are required by the terms of the corporate action requiring appraisal rights to accept for such shares anything other than cash or shares of any class or any series of shares of any corporation, or any other proprietary interest of any other entity, that satisfies the standards set forth in subdivision (1) of this subsection at the time the corporate action becomes effective.

(4) Subdivision (1) of this subsection shall not be applicable and appraisal rights shall be available pursuant to subsection (a) of this section for the holders of any class or series of shares where the corporate action is an interested transaction.

(c) Notwithstanding any other provision of this section, the articles of incorporation as originally filed or any amendment to the articles may limit or eliminate appraisal rights for any class or series of preferred shares. Any amendment to the articles that limits or eliminates appraisal rights for any shares that are outstanding immediately prior to the effective date of the amendment or that the corporation is or may be required to issue or sell thereafter pursuant to any conversion, exchange, or other right existing immediately before the effective date of the amendment, however, shall not apply to any corporate action that becomes effective within one year of that date if the corporate action would otherwise afford appraisal rights.

(d) A shareholder holding shares of a class or series that were issued and outstanding as of the effective date of this act but that did not as of that date entitle the shareholder to vote on a corporate action described in subdivision (a)(1), (2), or (3) of this section shall be entitled to appraisal rights, and to obtain payment of the fair value of the shareholder's shares of such class or series, to the same extent as if such shares did entitle the shareholder to vote on such corporate action.

### **§ 55-13-03. Assertion of rights by nominees and beneficial owners**

(a) A record shareholder may assert appraisal rights as to fewer than all the shares registered in the record shareholder's name but owned by a beneficial shareholder only if the record shareholder (i) objects with respect to all shares of the class or series owned by the beneficial shareholder and (ii) notifies the corporation in writing of the name and address of each beneficial shareholder on whose behalf appraisal rights are being asserted. The rights of a record shareholder who asserts appraisal rights for only part of the shares held of record in the record shareholder's name under this

subsection shall be determined as if the shares as to which the record shareholder objects and the record shareholder's other shares were registered in the names of different record shareholders.

(b) A beneficial shareholder may assert appraisal rights as to shares of any class or series held on behalf of the shareholder only if the shareholder does both of the following:

(1) Submits to the corporation the record shareholder's written consent to the assertion of rights no later than the date referred to in *G.S. 55-13-22(b)(2)b*.

(2) Submits written consent under subdivision (1) of this subsection with respect to all shares of the class or series that are beneficially owned by the beneficial shareholder.

**§§ 55-13-04 through 55-13-19** [Repealed/Reserved]

## **PART 2. PROCEDURE FOR EXERCISE OF APPRAISAL RIGHTS**

### **§ 55-13-20. Notice of appraisal rights**

(a) If any corporate action specified in *G.S. 55-13-02(a)* is to be submitted to a vote at a shareholders' meeting, the meeting notice must state that the corporation has concluded that shareholders are, are not, or may be entitled to assert appraisal rights under this Article. If the corporation concludes that appraisal rights are or may be available, a copy of this Article must accompany the meeting notice sent to those record shareholders entitled to exercise appraisal rights.

(b) In a merger pursuant to *G.S. 55-11-04*, the parent corporation must notify in writing all record shareholders of the subsidiary who are entitled to assert appraisal rights that the corporate action became effective. In the case of any other corporate action specified in *G.S. 55-13-02(a)* with respect to which shareholders of a class or series do not have the right to vote, but with respect to which those shareholders are entitled to assert appraisal rights, the corporation must notify in writing all record shareholders of such class or series that the corporate action became effective. Notice required under this subsection must be sent within 10 days after the corporate action became effective and include the materials described in *G.S. 55-13-22*.

(c) If any corporate action specified in *G.S. 55-13-02(a)* is to be approved by written consent of the shareholders pursuant to *G.S. 55-7-04*, then the following must occur:

(1) Written notice that appraisal rights are, are not, or may be available must be given to each record shareholder from whom a consent is solicited at the time consent of each shareholder is first solicited and, if the corporation has concluded that appraisal rights are or may be available, must be accompanied by a copy of this Article.

(2) Written notice that appraisal rights are, are not, or may be available must be delivered together with the notice to the applicable shareholders required by subsections (d) and (e) of *G.S. 55-7-04*, may include the materials described in *G.S. 55-13-22*, and, if the corporation has concluded that appraisal rights are or may be available, must be accompanied by a copy of this Article.

(d) If any corporate action described in *G.S. 55-13-02(a)* is proposed, or a merger pursuant to *G.S. 55-11-04* is effected, then the notice referred to in subsection (a) or (c) of this section, if the corporation concludes that appraisal rights are or may be available, and in subsection (b) of this section shall be accompanied by the following:

(1) The annual financial statements specified in *G.S. 55-16-20(a)* of the corporation that issued the shares to be appraised. The date of the financial statements shall not be more than 16 months before the date of the notice and shall comply with *G.S. 55-16-20(b)*. If annual financial statements that meet the requirements of this subdivision are not reasonably available, then the corporation shall provide reasonably equivalent financial information.

(2) The latest available quarterly financial statements of the corporation, if any.

The right to receive the information described in this subsection may be waived in writing by a shareholder before or after the corporate action.



### **§ 55-13-21. Notice of intent to demand payment and consequences of voting or consenting**

(a) If a corporate action specified in *G.S. 55-13-02(a)* is submitted to a vote at a shareholders' meeting, a shareholder who is entitled to vote on the corporate action and who wishes to assert appraisal rights with respect to any class or series of shares must do the following:

(1) Deliver to the corporation, before the vote is taken, written notice of the shareholder's intent to demand payment if the proposed action is effectuated.

(2) Not vote, or cause or permit to be voted, any shares of any class or series in favor of the proposed action.

(b) If a corporate action specified in *G.S. 55-13-02(a)* is to be approved by less than unanimous written consent, a shareholder who is entitled to vote on the corporate action and who wishes to assert appraisal rights with respect to any class or series of shares must not execute a consent in favor of the proposed action with respect to that class or series of shares.

(c) A shareholder who fails to satisfy the requirements of subsection (a) or (b) of this section is not entitled to payment under this Article.

### **§ 55-13-22. Appraisal notice and form**

(a) If a corporate action requiring appraisal rights under *G.S. 55-13-02(a)* becomes effective, the corporation must deliver a written appraisal notice and form required by subdivision (b)(1) of this section to all shareholders who satisfied the requirements of *G.S. 55-13-21*. In the case of a merger under *G.S. 55-11-04*, the parent corporation must deliver a written appraisal notice and form to all record shareholders of the subsidiary who may be entitled to assert appraisal rights. In the case of any other corporate action specified in *G.S. 55-13-02(a)* that becomes effective and with respect to which shareholders of a class or series do not have the right to vote but with respect to which such shareholders are entitled to assert appraisal rights, the corporation must deliver a written appraisal notice and form to all record shareholders of such class or series who may be entitled to assert appraisal rights.

(b) The appraisal notice must be sent no earlier than the date the corporate action specified in *G.S. 55-13-02(a)* became effective and no later than 10 days after that date. The appraisal notice must include the following:

(1) A form that specifies the first date of any announcement to shareholders, made prior to the date the corporate action became effective, of the principal terms of the proposed corporate action. If such an announcement was made, the form shall require a shareholder asserting appraisal rights to certify whether beneficial ownership of those shares for which appraisal rights are asserted was acquired before that date. The form shall require a shareholder asserting appraisal rights to certify that the shareholder did not vote for or consent to the transaction.

(2) Disclosure of the following:

a. Where the form must be sent and where certificates for certificated shares must be deposited, as well as the date by which those certificates must be deposited. The certificate deposit date must not be earlier than the date for receiving the required form under sub-subdivision b. of this subdivision.

b. A date by which the corporation must receive the payment demand, which date may not be fewer than 40 nor more than 60 days after the date the appraisal notice required under subsection (a) of this section and form are sent. The form shall also state that the shareholder shall have waived the right to demand appraisal with respect to the shares unless the form is received by the corporation by the specified date.

c. The corporation's estimate of the fair value of the shares.

d. That, if requested in writing, the corporation will provide, to the shareholder so requesting, within 10 days after the date specified in sub-subdivision b. of this subdivision, the number of shareholders who return the forms by the specified date and the total number of shares owned by them.

e. The date by which the notice to withdraw under *G.S. 55-13-23* must be received, which date must be within 20 days after the date specified in sub-subdivision b. of this subdivision.

(3) Be accompanied by a copy of this Article.

### **§ 55-13-23. Perfection of rights; right to withdraw**

(a) A shareholder who receives notice pursuant to *G.S. 55-13-22* and who wishes to exercise appraisal rights must sign and return the form sent by the corporation and, in the case of certificated shares, deposit the shareholder's certificates in accordance with the terms of the notice by the date referred to in the notice pursuant to *G.S. 55-13-22(b)(2)*. In addition, if applicable, the shareholder must certify on the form whether the beneficial owner of such shares acquired beneficial ownership of the shares before the date required to be set forth in the notice pursuant to *G.S. 55-13-22(b)(1)*. If a shareholder fails to make this certification, the corporation may elect to treat the shareholder's shares as after-acquired shares under *G.S. 55-13-27*. Once a shareholder deposits that shareholder's certificates or, in the case of uncertificated shares, returns the signed forms, that shareholder loses all rights as a shareholder, unless the shareholder withdraws pursuant to subsection (b) of this section.

(b) A shareholder who has complied with subsection (a) of this section may nevertheless decline to exercise appraisal rights and withdraw from the appraisal process by so notifying the corporation in writing by the date set forth in the appraisal notice pursuant to *G.S. 55-13-22(b)(2)e*. A shareholder who fails to so withdraw from the appraisal process may not thereafter withdraw without the corporation's written consent.

(c) A shareholder who does not sign and return the form and, in the case of certificated shares, deposit that shareholder's share certificates where required, each by the date set forth in the notice described in *G.S. 55-13-22(b)* shall not be entitled to payment under this Article.

**N.C. Gen. Stat. § 55-13-24** [Repealed/Reserved]

### **§ 55-13-25. Payment**

(a) Except as provided in *G.S. 55-13-27*, within 30 days after the form required by *G.S. 55-13-22(b)* is due, the corporation shall pay in cash to the shareholders who complied with *G.S. 55-13-23(a)* the amount the corporation estimates to be the fair value of their shares, plus interest.

(b) The payment to each shareholder pursuant to subsection (a) of this section must be accompanied by the following:

(1) The following financial information:

a. The annual financial statements specified in *G.S. 55-16-20(a)* of the corporation that issued the shares to be appraised. The date of the financial statements shall not be more than 16 months before the date of payment and shall comply with *G.S. 55-16-20(b)*. If annual financial statements that meet the requirements of this sub-subdivision are not reasonably available, the corporation shall provide reasonably equivalent financial information.

b. The latest available quarterly financial statements, if any.

(2) A statement of the corporation's estimate of the fair value of the shares. The estimate must equal or exceed the corporation's estimate given pursuant to *G.S. 55-13-22(b)(2)c*.

(3) A statement that the shareholders described in subsection (a) of this section have the right to demand further payment under *G.S. 55-13-28* and that if a shareholder does not do so within the time period specified therein, then the shareholder shall be deemed to have accepted such payment in full satisfaction of the corporation's obligations under this Article.

**N.C. Gen. Stat. § 55-13-26** [Repealed/Reserved]

**§ 55-13-27. After-acquired shares**

(a) A corporation may elect to withhold payment required by *G.S. 55-13-25* from any shareholder who was required to but did not certify that beneficial ownership of all of the shareholder's shares for which appraisal rights are asserted was acquired before the date set forth in the appraisal notice sent pursuant to *G.S. 55-13-22(b)(1)*.

(b) If the corporation elected to withhold payment under subsection (a) of this section, it must, within 30 days after the form required by *G.S. 55-13-22(b)* is due, notify all shareholders who are described in subsection (a) of this section of the following:

(1) The information required by *G.S. 55-13-25(b)(1)*.

(2) The corporation's estimate of fair value pursuant to *G.S. 55-13-25(b)(2)*.

(3) That they may accept the corporation's estimate of fair value, plus interest, in full satisfaction of their demands or demand appraisal under *G.S. 55-13-28*.

(4) That those shareholders who wish to accept such offer must so notify the corporation of their acceptance of the corporation's offer within 30 days after receiving the offer.

(5) That those shareholders who do not satisfy the requirements for demanding appraisal under *G.S. 55-13-28* shall be deemed to have accepted the corporation's offer.

(c) Within 10 days after receiving the shareholder's acceptance pursuant to subsection (b) of this section, the corporation must pay in cash the amount it offered under subdivision (b)(2) of this section to each shareholder who agreed to accept the corporation's offer in full satisfaction of the shareholder's demand.

(d) Within 40 days after sending the notice described in subsection (b) of this section, the corporation must pay in cash the amount it offered to pay under subdivision (b)(2) of this section to each shareholder described in subdivision (b)(5) of this section.

**§ 55-13-28. Procedure if shareholder dissatisfied with payment or offer**

(a) A shareholder paid pursuant to *G.S. 55-13-25* who is dissatisfied with the amount of the payment must notify the corporation in writing of that shareholder's estimate of the fair value of the shares and demand payment of that estimate plus interest (less any payment under *G.S. 55-13-25*). A shareholder offered payment under *G.S. 55-13-27* who is dissatisfied with that offer must reject the offer and demand payment of the shareholder's stated estimate of the fair value of the shares, plus interest.

(b) A shareholder who fails to notify the corporation in writing of that shareholder's demand to be paid the shareholder's stated estimate of the fair value, plus interest, under subsection (a) of this section within 30 days after receiving the corporation's payment or offer of payment under *G.S. 55-13-25* or *G.S. 55-13-27*, respectively, waives the right to demand payment under this section and shall be entitled only to the payment made or offered pursuant to those respective sections.

**N.C. Gen. Stat. § 55-13-29** [Repealed/Reserved]

**PART 3. JUDICIAL APPRAISAL OF SHARES**

**§ 55-13-30. Court Action**

(a) If a shareholder makes a demand for payment under *G.S. 55-13-28* which remains unsettled, the corporation shall commence a proceeding within 60 days after receiving the payment demand by filing a complaint with the Superior Court Division of the General Court of Justice to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the 60-day period, the corporation shall pay in cash to each shareholder the amount the shareholder demanded pursuant to *G.S. 55-13-28*, plus interest.

(a1) Repealed by Session Laws 1997-202, s. 4.

(b) The corporation shall commence the proceeding in the appropriate court of the county where the corporation's principal office (or, if none, its registered office) in this State 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 registered office of the domestic corporation merged with the foreign corporation was located at the time of the transaction.

(c) The corporation shall make all shareholders (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 complaint. Nonresidents may be served by registered or certified mail or by publication as provided by law.

(d) The jurisdiction of the superior court in which the proceeding is commenced under subsection (b) of this section is plenary and exclusive. The court may appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of fair value. The appraisers shall have the powers described in the order appointing them, or in any amendment to it. The shareholders demanding appraisal rights are entitled to the same discovery rights as parties in other civil proceedings. There shall be no right to a trial by jury.

(e) Each shareholder made a party to the proceeding is entitled to judgment either (i) for the amount, if any, by which the court finds the fair value of the shareholder's shares, plus interest, exceeds the amount paid by the corporation to the shareholder for the shareholder's shares or (ii) for the fair value, plus interest, of the shareholder's shares for which the corporation elected to withhold payment under *G.S. 55-13-27*.

#### **§ 55-13-31. Court costs and expenses**

(a) The court in an appraisal proceeding commenced under *G.S. 55-13-30* shall determine all court 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 shareholders demanding appraisal, in amounts the court finds equitable, to the extent the court finds such shareholders acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this Article.

(b) The court in an appraisal proceeding may also assess the expenses for the respective parties, in amounts the court finds equitable:

(1) Against the corporation and in favor of any or all shareholders demanding appraisal if the court finds the corporation did not substantially comply with the requirements of *G.S. 55-13-20*, *55-13-22*, *55-13-25*, or *55-13-27*.

(2) Against either the corporation or a shareholder demanding appraisal, in favor of any other party, if the court finds that the party against whom expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this Article.

(c) If the court in an appraisal proceeding finds that the expenses incurred by any shareholder were of substantial benefit to other shareholders similarly situated and that these expenses should not be assessed against the corporation, the court may direct that the expenses be paid out of the amounts awarded the shareholders who were benefited.

(d) To the extent the corporation fails to make a required payment pursuant to *G.S. 55-13-25*, *55-13-27*, or *55-13-28*, the shareholder may sue directly for the amount owed and, to the extent successful, shall be entitled to recover from the corporation all expenses of the suit.

#### **§§ 55-13-32 through 55-13-39**

[Repealed/Reserved]

## PART 4. OTHER REMEDIES

### § 55-13-40. Other remedies limited

(a) The legality of a proposed or completed corporate action described in *G.S. 55-13-02(a)* may not be contested, nor may the corporate action be enjoined, set aside, or rescinded, in a legal or equitable proceeding by a shareholder after the shareholders have approved the corporate action.

(b) Subsection (a) of this section does not apply to a corporate action that:

(1) Was not authorized and approved in accordance with the applicable provisions of any of the following:

- a. Article 9, 9A, 10, 11, 11A, or 12 of this Chapter.
- b. The articles of incorporation or bylaws.
- c. The resolution of the board of directors authorizing the corporate action.

(2) Was procured as a result of fraud, a material misrepresentation, or an omission of a material fact necessary to make statements made, in light of the circumstances in which they were made, not misleading.

(3) Constitutes an interested transaction, unless it has been authorized, approved, or ratified by either (i) the board of directors or a committee of the board or (ii) the shareholders, in the same manner as is provided in *G.S. 55-8-31(a)(1)* and (c) or in *G.S. 55-8-31(a)(2)* and (d), as if the interested transaction were a director's conflict of interest transaction.

(4) Was approved by less than unanimous consent of the voting shareholders pursuant to *G.S. 55-7-04*, provided that both of the following are true:

a. The challenge to the corporate action is brought by a shareholder who did not consent and as to whom notice of the approval of the corporate action was not effective at least 10 days before the corporate action was effected.

b. The proceeding challenging the corporate action is commenced within 10 days after notice of the approval of the corporate action is effective as to the shareholder bringing the proceeding.



## **Appendix D**

### **CB Financial Corporation 2016 Annual Report**







# **CB FINANCIAL CORPORATION AND SUBSIDIARY**

## **CONSOLIDATED FINANCIAL STATEMENTS**

***As of and for the Years Ended December 31, 2016  
and 2015***

***And Report of Independent Auditor***

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
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**TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS:**

We are pleased to report that 2016 was another year of growth and achievement for CB Financial Corporation ("CB" or the "Company"), the holding company for Cornerstone Bank ("Cornerstone" or the "Bank").

For the year ended December 31, 2016, CB reported net income of \$2.5 million compared to net income of \$601,000 for the year ended December 31, 2015. The 2016 result was positively impacted by the reversal of CB's deferred tax asset ("DTA") valuation allowance that provided a one-time tax benefit of approximately \$2.0 million. With these results, CB is reporting its third consecutive year of profitable operations.

As of December 31, 2016, CB reported total assets of \$109.9 million, total loans of \$72.0 million and total deposits of \$91.1 million. Assets, loans and deposits increased 5%, 4% and 2%, respectively, compared to totals reported at year-end December 31, 2015. The Company continues to see positive core earnings, improved asset quality and solid loan and deposit growth. This bodes well for the future as we focus on these critical measures of strong performance.

As a community bank headquartered in Wilson, it is our stated goal to serve the community banking needs of individuals and businesses in the City of Wilson, Wilson County and the surrounding area. It was with that in mind Cornerstone introduced two new relationship accounts, CashBack Checking and Interest Rewards Checking, last summer. These accounts have been well-received and we will build on their success in 2017.

Our Annual Meeting of Shareholders will be held on Tuesday, June 20, 2017, at 3:00 p.m. at the Cornerstone Bank Operations Center, 3105 Nash Street N., Wilson, North Carolina. Please join us to hear more about our results to-date and additional plans for 2017.

If you currently bank with us, thank you. If you do not bank with us yet, we hope you will give us the opportunity to meet your banking needs. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Holmes".

Mark A. Holmes  
President and CEO

A handwritten signature in black ink that reads "John C. Anthony".

John C. Anthony  
Chairman of the Board

## **Report of Independent Auditor**

To the Board of Directors and Stockholders of  
CB Financial Corporation and Subsidiary  
Wilson, North Carolina

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of CB Financial Corporation and Subsidiary (collectively the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 audits 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 CB Financial Corporation and Subsidiary as of December 31, 2016 and 2015, 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.



Raleigh, North Carolina  
March 21, 2017

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Cash and due from banks	\$ 3,380,729	\$ 2,878,738
Interest-earning deposits in banks	4,275,232	3,846,530
Total cash and cash equivalents	7,655,961	6,725,268
Repurchase agreements	2,487,804	-
Certificates of deposits	1,060,000	1,550,000
Investment securities available-for-sale, at fair value	16,934,531	20,837,610
Loans	71,959,359	68,715,983
Allowance for loan losses	(975,873)	(1,122,916)
Net loans	70,983,486	67,593,067
Accrued interest receivable	380,546	326,624
Federal Home Loan Bank of Atlanta stock, at cost	307,400	398,300
Premises and equipment, net	2,229,671	2,323,738
Bank-owned life insurance	4,015,273	3,901,577
Real estate owned	1,396,572	1,746,243
Deferred tax assets, net	2,074,322	-
Other assets	355,495	354,114
<b>Total Assets</b>	<b>\$ 109,881,061</b>	<b>\$ 105,756,541</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Demand	\$ 17,213,413	\$ 12,779,164
Savings	3,464,495	3,490,920
Money market and NOW	37,982,612	35,954,683
Time	33,432,556	38,314,416
Total deposits	92,093,076	90,539,183
Borrowings	5,000,000	5,000,000
Subordinated debt	5,155,000	5,155,000
Accrued interest payable	21,501	25,126
Accrued expenses and other liabilities	110,979	179,421
<b>Total Liabilities</b>	<b>102,380,556</b>	<b>100,898,730</b>
Stockholders' Equity:		
Common stock, no par value, 80,000,000 shares authorized; 47,544,924 shares issued and outstanding at December 31, 2016 and 2015.	-	-
Additional paid-in capital	18,233,024	18,233,024
Accumulated deficit	(10,588,936)	(13,122,914)
Accumulated other comprehensive loss	(143,583)	(252,299)
<b>Total Stockholders' Equity</b>	<b>7,500,505</b>	<b>4,857,811</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 109,881,061</b>	<b>\$ 105,756,541</b>

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

	<b>2016</b>	<b>2015</b>
Interest Income:		
Loans	\$ 3,239,043	\$ 3,078,160
Investment securities - taxable	333,314	507,324
Interest - earning deposits in banks	53,662	46,732
Other interest and dividends	76,819	67,171
Total Interest Income	<u>3,702,838</u>	<u>3,699,387</u>
Interest Expense:		
Money market, NOW, and savings deposits	41,147	39,944
Time deposits	291,636	323,942
Short-term borrowings	114,387	147,602
Long-term borrowings	133,326	132,527
Total Interest Expense	<u>580,496</u>	<u>644,015</u>
Net interest income	3,122,342	3,055,372
Recovery of loan losses	-	(275,000)
Net interest income after recovery of loan losses	<u>3,122,342</u>	<u>3,330,372</u>
Non-interest Income:		
Service charges on deposit accounts	147,356	161,800
Mortgage operations	90,988	48,372
Gain on sale of investment securities available-for-sale	126,188	37,729
Income from bank-owned life insurance	113,696	312,671
Other	110,593	141,566
Total Non-interest Income	<u>588,821</u>	<u>702,138</u>
Non-interest Expense:		
Salaries and employee benefits	1,650,320	1,705,303
Occupancy and equipment	226,134	241,978
Data processing expenses	469,961	393,513
Loss on sale and write down of real estate owned	40,414	239,183
Other	768,880	851,619
Total Non-interest Expense	<u>3,155,709</u>	<u>3,431,596</u>
Income before income taxes	555,454	600,914
Income tax benefit	(1,978,524)	-
Net income allocable to common stockholders	<u>\$ 2,533,978</u>	<u>\$ 600,914</u>
Net income per common share:		
Basic	\$ 0.05	\$ 0.02
Diluted	0.05	0.02
Weighted average common share outstanding:		
Basic	47,544,924	26,452,048
Diluted	47,544,924	34,186,112

The accompanying notes to the consolidated financial statements are an integral part of these statements.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

	<b>2016</b>	<b>2015</b>
Net income	<u>\$ 2,533,978</u>	<u>\$ 600,914</u>
Other comprehensive income (loss):		
Changes in unrealized losses on securities available for sale, including income tax benefit of \$83,032 during 2016, and \$0 for 2015	234,904	(202,194)
Reclassification of realized gains during the year	<u>(126,188)</u>	<u>(37,729)</u>
Total other comprehensive income (loss)	<u>108,716</u>	<u>(239,923)</u>
Comprehensive income	<u><u>\$ 2,642,694</u></u>	<u><u>\$ 360,991</u></u>

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

	Common Stock	Preferred Stock A	Preferred Stock B	Preferred Stock C	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
<b>Balance, December 31, 2014</b>	\$ -	\$ 1,928,429	\$ 530,005	\$ 4,040,000	\$ 8,914,870	\$ (13,723,828)	\$ (12,376)	\$ 1,677,100
Net income	-	-	-	-	-	600,914	-	600,914
Other comprehensive loss	-	-	-	-	-	-	(239,923)	(239,923)
Conversion of preferred to common	-	(1,928,429)	(530,005)	(4,040,000)	6,498,434	-	-	-
Stock-based compensation	-	-	-	-	(5,833)	-	-	(5,833)
Issuance of common stock	-	-	-	-	2,825,553	-	-	2,825,553
<b>Balance, December 31, 2015</b>	-	-	-	-	18,233,024	(13,122,914)	(252,299)	4,857,811
Net income	-	-	-	-	-	2,533,978	-	2,533,978
Other comprehensive income	-	-	-	-	-	-	108,716	108,716
<b>Balance, December 31, 2016</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,233,024</u>	<u>\$ (10,588,936)</u>	<u>\$ (143,583)</u>	<u>\$ 7,500,505</u>



# CB FINANCIAL CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,533,978	\$ 600,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax benefit	(1,991,289)	-
Depreciation and amortization	123,043	130,699
Proceeds from disposal of bank premises and equipment	-	200
Amortization and accretion of investment securities available-for-sale, net	43,735	128,115
Stock based compensation	-	(5,833)
Realized gain on investment securities available-for-sale	(126,188)	(37,729)
Loss on sale of real estate owned	40,414	127,087
Write down of real estate owned	-	112,096
Recovery of loan losses	-	(275,000)
Earnings on bank-owned life insurance	(113,696)	(312,671)
Deferred loan income	(21,617)	(13,433)
Change in assets and liabilities:		
Accrued interest receivable	(53,922)	6,719
Other assets	(1,381)	318,519
Accrued interest payable	(3,625)	(556,920)
Accrued expenses and other liabilities	(68,442)	(117,656)
Net cash provided by operating activities	361,010	105,107
<b>Cash flows from investing activities:</b>		
Purchase of investment securities, available-for-sale	(10,570,464)	(20,513,976)
Sales of investment securities, available-for-sale	14,120,935	24,099,257
Proceeds from maturities and calls of investments securities available-for-sale	460,744	2,271,956
Purchases of repurchase agreements	(2,487,804)	-
Proceeds from maturities of certificates of deposit	490,000	-
Purchases of certificates of deposit	-	(1,060,000)
Proceeds from bank-owned life insurance benefit	-	302,929
Proceeds from sale of real estate owned	309,257	1,326,679
Net increase in loans	(3,368,802)	(3,086,777)
Proceeds from sales of Federal Home Loan Bank stock	90,900	113,300
Purchases of bank premises and equipment	(28,976)	(11,690)
Net cash (provided by) used in investing activities	(984,210)	3,441,678
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	1,553,893	(7,032,558)
Proceeds from issuance of common stock, net of cost	-	2,825,553
Net payments on FHLB advances	-	(2,000,000)
Net cash provided by (used in) financing activities	1,553,893	(6,207,005)
Net increase (decrease) in cash and cash equivalents	930,693	(2,660,220)
Cash and cash equivalents, beginning of year	6,725,268	9,385,488
Cash and cash equivalents, end of year	\$ 7,655,961	\$ 6,725,268
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 584,121	\$ 1,200,935
<b>Supplemental disclosure of noncash transactions:</b>		
Change in fair value of investment securities available-for-sale, net	\$ 25,684	\$ (239,923)

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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### Note 1—Organization and operations

Cornerstone Bank (the “Bank”) was incorporated on March 14, 2000, and began banking operations on March 15, 2000. The Bank is engaged in general commercial and retail banking in eastern North Carolina, principally in Wilson County, and operates under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities.

In June 2005, the stockholders of the Bank approved an Agreement and Plan of Reorganization pursuant to which the Bank became a wholly-owned banking subsidiary of CB Financial Corporation (the “Company”), a North Carolina corporation formed as a holding company for the Bank. At the closing of the holding company reorganization (the “Reorganization”), one share of the Company’s no par value common stock was exchanged for each of the outstanding shares of the Bank’s \$5.00 par value common stock. The Company currently has no operations and conducts no business on its own other than its ownership of the Bank and the common shares of CB Financial Capital Trust I, a Connecticut statutory trust to facilitate the issuance of \$5 million of trust preferred securities.

In May 2015, the stockholders approved various amendments to the Company’s Articles of Incorporation, that resulted in all of the Company’s issued and outstanding shares of preferred stock (Series A, B, and C) being converted and reclassified into common stock, effective May 29, 2015.

In June 2015, the Company began a Private Placement Common Stock Offering (the “Private Placement”) with certain individual accredited investors. Under the terms of the Private Placement, the Company established a maximum offering of 35,000,000 shares of no par value common stock at a price of \$0.10 per share. Upon completion, the Company placed 28,850,000 shares of common stock at the offering price of \$0.10 per share as of June 29, 2015. There were no such transactions for the year ended December 31, 2016.

### Note 2—Summary of significant accounting policies

*Principles of Consolidation* – The consolidated financial statements include the accounts of CB Financial Corporation and Cornerstone Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates* – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (ii) the 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 management’s determination of the allowance for loan losses, the valuation of real estate owned, realization of net deferred tax assets, and the fair value of financial instruments.

*Cash and Cash Equivalents* – For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheet captions “Cash and due from banks,” and “Interest-earning deposits in banks” with maturities fewer than 90 days. Net cash flows are reported for customer loan and deposit transactions and time deposits in other banks.

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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### **Note 2—Summary of significant accounting policies (continued)**

*Investment Securities Available-for-Sale* – Investment securities available-for-sale are reported at fair value and consist of debt instruments that are not classified as either trading securities or as held-to-maturity securities. Unrealized holding gains and losses, net of deferred income tax, on available-for-sale securities are reported as a net amount in accumulated other comprehensive income. Gains and losses on the sale of investment securities available-for-sale are determined using the specific-identification method. Declines in the fair value of individual investment securities available-for-sale below their cost that are determined to be other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on a trade-date basis and determined using the specific identification method.

Management evaluates securities other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

*Loans* – Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balance 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. Loan origination fees and certain direct origination 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. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

*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 earnings. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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 the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions, and environmental factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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### **Note 2—Summary of significant accounting policies (continued)**

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans 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.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan pools and a loss ratio factor is applied to each group's loan balances to determine the allocation.

An unallocated component is 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.

Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans, levels, and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk management and underwriting practices, experience, ability, and depth of lending management and staff, national and local economic trends and conditions, banking industry conditions, and the effect of changes in credit concentrations.

*Mortgage Operations* – The Bank originates single family, residential first mortgage loans on a presold basis. The Bank recognizes certain origination and service release fees upon the sale, which are included in non-interest income on the statements of operations under the caption "Mortgage operations."

*Premises and Equipment* – Land is carried at cost. The Company's premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 35 years for buildings, 3 to 15 years for furniture, fixtures, and equipment, and 2 to 5 years for computers and related equipment. Repairs and maintenance costs are charged to operations as incurred and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

*Federal Home Loan Bank of Atlanta Stock and Investments Accounted for Under the Cost Method* – As a requirement for membership, the Company invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"), which is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. Because of the redemption provisions of the FHLB, the Company estimated that fair value equals cost and that this investment was not impaired at December 31, 2016 or 2015.

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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### Note 2—Summary of significant accounting policies (continued)

Occasionally, the Company invests in nonmarketable equity securities which are accounted for under the cost method. These investments are carried at cost unless a determination has been made that they are impaired. During 2016 and 2015, no write downs were necessary. These investments are included in other assets in the accompanying consolidated balance sheets.

*Real Estate Owned* – Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value less estimated costs to sell at the date of foreclosure establishing a new cost basis. Principal and interest losses existing at the time of acquisition of such assets are charged against the allowance for loan losses and interest income, respectively. Subsequent to foreclosure, valuations of the property are periodically performed by management and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in expenses on real estate owned.

*Income Taxes* – Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. As of December 31, 2015, the Bank had recorded valuation allowances against all of its net deferred tax assets. Management has determined that it is more likely than not that deferred tax assets will be realizable up to the recorded value. As a result, management has reduced its valuation allowance from December 31, 2015 of \$5,223,662 down to \$96,425, for the year ended December 31, 2016.

It is the Bank's policy to evaluate uncertain tax positions. As of December 31, 2016 and 2015, the Company had no uncertain tax positions requiring disclosure or recognition.

*Accumulated Other Comprehensive Income (Loss)* – Other comprehensive income (loss) refers to all components (revenues, expenses, gains, and losses) of comprehensive income (loss) that are excluded from net income. The Company's only component of other comprehensive income is unrealized gains and losses on investment securities available-for-sale.

*Advertising Costs* – Advertising costs are expensed as incurred. Advertising expenses were \$53,218 and \$46,384 for the years ended December 31, 2016 and 2015, respectively.

*Bank Owned Life Insurance ("BOLI")* – The Bank has invested in cash value life insurance policies to fund a portion of the deferred compensation plan. The investment in the life insurance contracts is reported as an asset at the amount that could be realized under the insurance contracts at the balance sheet date.

*Per Share Results* – As discussed in Note 1, all shares of Series A, B, and C Preferred Stock were reclassified and converted into shares of common stock during June 2015. Prior to the conversion, Series A and Series B Preferred Stockholders were entitled to vote only as required by law, or upon any merger or acquisition of all or substantially all of the capital stock or assets of the Company. Series A Preferred Stockholders, except with respect to the Series B Preferred Dividend, were entitled to a preference in the distribution of dividends so that the holders of Series A shall receive dividends prior to the holders of common stock and Series B Preferred Stock. Series C Preferred Stockholders had liquidation preference of \$2.50 and a non-cumulative dividend of 5% per annum. No preferred dividends were declared in 2016 or 2015.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 2—Summary of significant accounting policies (continued)**

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and Preferred Stock, and are determined using the treasury stock method. All potentially dilutive shares were converted to common shares as of December 31, 2015. No additional dilutive shares were issued during the year ended December 31, 2016.

The basic and diluted weighted average common shares outstanding are as follows:

	<b>2016</b>	<b>2015</b>
Net income available to common shareholders	\$ 2,533,978	\$ 600,914
Weighted average number of common shares - basic	47,544,924	26,452,048
Effect of dilutive convertible preferred shares, Series A	-	90,196
Effect of dilutive convertible preferred shares, Series B	-	24,984
Effect of dilutive convertible preferred shares, Series C	-	7,618,884
Weighted average number of common shares - dilutive	47,544,924	34,186,112
Basic earnings per common share	\$ 0.05	\$ 0.02
Diluted earnings per common share	0.05	0.02

**Note 3—Restrictions on cash**

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2016 and 2015, these reserve balances amounted to \$225,000 and \$200,000, respectively.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 4—Investment securities available-for-sale**

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Government sponsored enterprises	\$ 8,642,206	\$ 16,158	\$ (97,076)	\$ 8,561,288
Municipal securities	3,138,352	2,343	(7,809)	3,132,886
Mortgage-backed securities	5,380,588	-	(140,231)	5,240,357
	<u>\$ 17,161,146</u>	<u>\$ 18,501</u>	<u>\$ (245,116)</u>	<u>\$ 16,934,531</u>
	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities available-for-sale:				
Government sponsored enterprises	\$ 8,799,690	\$ 9,734	\$ (92,153)	\$ 8,717,271
Municipal securities	1,247,425	200	(26,745)	1,220,880
Mortgage-backed securities	11,042,794	14,993	(158,328)	10,899,459
	<u>\$ 21,089,909</u>	<u>\$ 24,927</u>	<u>\$ (277,226)</u>	<u>\$ 20,837,610</u>

Securities with a carrying value of \$3.9 million and \$6.3 million at December 31, 2016 and 2015, respectively, were pledged to secure borrowings.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 4—Investment securities available-for-sale (continued)**

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are deemed to be temporarily impaired aggregated by investment category and length of time that individual securities have been in a continuous, unrealized loss position at December 31, 2016 and 2015.

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available-for-sale:						
Government sponsored enterprises	\$ 5,932,139	\$ 87,651	\$ 1,143,270	\$ 9,425	\$ 7,075,409	\$ 97,076
Municipal securities	2,654,897	7,809	-	-	2,654,897	7,809
Mortgage-backed securities	2,373,514	82,823	2,866,844	57,408	5,240,358	140,231
Total temporarily impaired available-for-sale securities	<u>\$ 10,960,550</u>	<u>\$ 178,283</u>	<u>\$ 4,010,114</u>	<u>\$ 66,833</u>	<u>\$ 14,970,664</u>	<u>\$ 245,116</u>

  

	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available-for-sale:						
Government sponsored enterprises	\$ 6,468,359	\$ 72,304	\$ 728,363	\$ 19,849	\$ 7,196,722	\$ 92,153
Municipal securities	1,160,680	26,745	-	-	1,160,680	26,745
Mortgage-backed securities	9,032,959	158,328	-	-	9,032,959	158,328
Total temporarily impaired available-for-sale securities	<u>\$ 16,661,998</u>	<u>\$ 257,377</u>	<u>\$ 728,363</u>	<u>\$ 19,849</u>	<u>\$ 17,390,361</u>	<u>\$ 277,226</u>

As of December 31, 2016 there was one taxable municipal security and two mortgage-backed securities that have been in a continuous, unrealized loss position for more than twelve months. The unrealized losses on the Company's investment securities were caused by various reasons, but the Company feels that no material impairment of value is due to deteriorating financial condition of the issuers. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, these investment securities before the anticipated recovery of the amortized cost basis. As a result, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2016 and 2015.



# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 4—Investment securities available-for-sale (continued)

The amortized cost and fair value of the Company's investment securities available-for-sale at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Securities available-for-sale:		
Due in less than one year	\$ 109,889	\$ 107,108
Due in one to five years	2,161,381	2,135,628
Due in five to ten years	14,414,230	14,213,806
Due after ten years	475,646	477,989
Total	<u>\$ 17,161,146</u>	<u>\$ 16,934,531</u>

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments. Proceeds from the sale of investment securities available-for-sale during 2016 and 2015 of \$14,120,935 and \$24,099,257, generated gross realized gains of \$145,849 and \$208,308, respectively, and gross realized losses for 2016 and 2015 of \$19,661 and \$170,579, respectively.

### Note 5—Federal Home Loan Bank Atlanta Stock

As of December 31, 2016, the Bank had 3,074 shares of \$100 par value capital stock totaling \$307,400 in FHLB stock. The Bank had 3,983 shares of \$100 par value capital stock totaling \$398,300 in FHLB stock as of December 31, 2015. In order to borrow funds from the FHLB, the Bank must maintain an investment in FHLB's activity-based stock equal to \$212,500 and \$297,500 respectively, and an investment in FHLB's membership based stock equal to \$94,900 and \$100,800, respectively, for the years ended December 31, 2016 and 2015. Based on redemption provisions of FHLB, the stock has no quoted market value and is carried at cost.

### Note 6—Loans and the allowance for loan losses

Following is a summary of loans at December 31:

	2016 (Dollars in thousands)	2015
Commercial and agriculture	\$ 28,468	\$ 31,780
Construction and development	5,520	4,694
Farmland	6,303	1,764
1-4 residential mortgage	21,024	22,945
Multifamily	9,250	5,358
Consumer and other	1,394	2,175
Total loans	<u>71,959</u>	<u>68,716</u>
Less allowance for loan losses	<u>(976)</u>	<u>(1,123)</u>
Net loans	<u>\$ 70,983</u>	<u>\$ 67,593</u>

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 6—Loans and the allowance for loan losses (continued)

Loans are primarily made in Wilson County, North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and installment loans can be affected by local economic conditions.

The Company has had loan transactions with its directors and executive officers. Such loans were made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time. Such loans did not involve more than the normal risk of collectability or present other unfavorable features. A summary of related-party loan transactions is as follows (in thousands):

	2016	2015
Balance, beginning of year	\$ 2,221	\$ 2,511
Borrowings	136	271
Repayments	(1,702)	(561)
Balance, end of year	<u>\$ 655</u>	<u>\$ 2,221</u>

*Allowance for Loan Losses* – The allowance for loan losses is maintained at a level believed to be sufficient to provide for estimated loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon management's comprehensive analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the amount and composition of the loan portfolio, delinquency levels, actual loss experience, current economic conditions, and detailed analysis of individual loans for which the full collectability may not be assured. The detailed analysis includes methods to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific and general components. The specific component relates to loans that are deemed impaired. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the recorded value of that loan. The general component covers the remaining loan portfolio not evaluated individually for impairment, and is based on historical loss experience adjusted for qualitative factors. The appropriateness of the allowance for loan losses on loans is estimated based upon these factors and trends identified by management at the time financial statements are prepared.

A provision for loan losses is charged against operations and is added to the allowance for loan losses based on quarterly comprehensive analyses of the loan portfolio. The allowance for loan losses is allocated to certain loan categories based on the relative risk characteristics, asset classifications, and actual loss experience of the loan portfolio. While management has allocated the allowance for loan losses to various loan portfolio segments, the allowance is general in nature and is available for the loan portfolio in its entirety.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 6—Loans and the allowance for loan losses (continued)**

The following table presents activity in the allowance by loan category and information on the loans evaluated individually for impairment and collectively evaluated for impairment as of December 31 (in thousands):

	Allowance for Loan Losses and Recorded Investment in Loans						
	Commercial and Agricultural	Multifamily Residential	Construction and Development	Farmland	1-4 Residential Mortgage	Consumer and Other	Total
<b>December 31, 2016</b>							
<b>Allowance for loan losses:</b>							
Beginning Balance	\$ 533	\$ 54	\$ 83	\$ 2	\$ 346	\$ 105	\$ 1,123
Charge-offs	(232)	-	-	-	(23)	(9)	(264)
Recoveries	81	10	-	-	19	7	117
Ending Balance	<u>\$ 382</u>	<u>\$ 64</u>	<u>\$ 83</u>	<u>\$ 2</u>	<u>\$ 342</u>	<u>\$ 103</u>	<u>\$ 976</u>
Ending Balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 6</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 382</u>	<u>\$ 64</u>	<u>\$ 83</u>	<u>\$ 2</u>	<u>\$ 336</u>	<u>\$ 103</u>	<u>\$ 970</u>
<b>Loans outstanding:</b>							
Ending Balance	<u>\$ 28,468</u>	<u>\$ 9,250</u>	<u>\$ 5,520</u>	<u>\$ 6,303</u>	<u>\$ 21,024</u>	<u>\$ 1,394</u>	<u>\$ 71,959</u>
Ending Balance: individually evaluated for impairment	<u>\$ 1,758</u>	<u>\$ -</u>	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 786</u>	<u>\$ 4</u>	<u>\$ 2,642</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 26,710</u>	<u>\$ 9,250</u>	<u>\$ 5,426</u>	<u>\$ 6,303</u>	<u>\$ 20,238</u>	<u>\$ 1,390</u>	<u>\$ 69,317</u>
	Allowance for Loan Losses and Recorded Investment in Loans						
	Commercial and Agricultural	Multifamily Residential	Construction and Development	Farmland	1-4 Residential Mortgage	Consumer and Other	Total
<b>December 31, 2015</b>							
<b>Allowance for loan losses:</b>							
Beginning Balance	\$ 739	\$ 106	\$ 183	\$ 426	\$ 62	\$ 54	\$ 1,570
Charge-offs	(168)	(66)	(61)	-	(259)	(10)	(564)
Recoveries	254	16	61	-	57	4	392
(Recovery of) provision for loan losses	(292)	(2)	(100)	(424)	486	57	(275)
Ending Balance	<u>\$ 533</u>	<u>\$ 54</u>	<u>\$ 83</u>	<u>\$ 2</u>	<u>\$ 346</u>	<u>\$ 105</u>	<u>\$ 1,123</u>
Ending Balance: individually evaluated for impairment	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 90</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 452</u>	<u>\$ 54</u>	<u>\$ 78</u>	<u>\$ 2</u>	<u>\$ 342</u>	<u>\$ 105</u>	<u>\$ 1,033</u>
<b>Loans outstanding:</b>							
Ending Balance	<u>\$ 31,780</u>	<u>\$ 5,358</u>	<u>\$ 4,694</u>	<u>\$ 1,764</u>	<u>\$ 22,945</u>	<u>\$ 2,175</u>	<u>\$ 68,716</u>
Ending Balance: individually evaluated for impairment	<u>\$ 2,343</u>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ 1,009</u>	<u>\$ 11</u>	<u>\$ 3,462</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 29,437</u>	<u>\$ 5,358</u>	<u>\$ 4,595</u>	<u>\$ 1,764</u>	<u>\$ 21,936</u>	<u>\$ 2,164</u>	<u>\$ 65,254</u>

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
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**Note 6—Loans and the allowance for loan losses (continued)**

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality of the Bank's loan portfolio. The Bank's loan ratings coincide with the "Substandard," "Doubtful," and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable, and improbable. Assets classified as Loss are those considered uncollectible, and of such little value that its continuance on the books is not warranted. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage, and/or weakening market fundamentals that indicate above average risk.

The following table lists the loan grades utilized by the Bank and the corresponding total of outstanding loans in each category as of December 31 (in thousands):

<b>Credit Risk Profile by Internally Assigned Grades</b>					
<b>Loan Grades</b>					
<b>December 31, 2016</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful and Loss</b>	<b>Total</b>
Commercial and agriculture	\$ 24,333	\$ 2,986	\$ 1,149	\$ -	\$ 28,468
Construction and development	5,426	94	-	-	5,520
Farmland	6,171	132	-	-	6,303
1-4 residential mortgage	20,424	600	-	-	21,024
Multifamily residential	9,250	-	-	-	9,250
Consumer and other	1,368	26	-	-	1,394
Total	<u>\$ 66,972</u>	<u>\$ 3,838</u>	<u>\$ 1,149</u>	<u>\$ -</u>	<u>\$ 71,959</u>

<b>Credit Risk Profile by Internally Assigned Grades</b>					
<b>Loan Grades</b>					
<b>December 31, 2015</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful and Loss</b>	<b>Total</b>
Commercial and agriculture	\$ 26,248	\$ 3,290	\$ 2,242	\$ -	\$ 31,780
Construction and development	4,496	198	-	-	4,694
Farmland	1,764	-	-	-	1,764
1-4 residential mortgage	20,670	1,639	636	-	22,945
Multifamily residential	5,353	5	-	-	5,358
Consumer and other	2,161	14	-	-	2,175
Total	<u>\$ 60,692</u>	<u>\$ 5,146</u>	<u>\$ 2,878</u>	<u>\$ -</u>	<u>\$ 68,716</u>

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 6—Loans and the allowance for loan losses (continued)

Loans may be placed in nonaccrual status when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. Payments received are first applied to principal, and any remaining funds are then applied to interest. Loans are removed from nonaccrual status when they are deemed a loss and charged to the allowance, transferred to foreclosed assets, or returned to accrual status based upon performance consistent with the original terms of the loan or a subsequent restructuring thereof.

The following table presents an age analysis of nonaccrual and past due loans by category as of December 31 (in thousands):

Analysis of Past Due and Nonaccrual Loans							
December 31, 2016	30-89 Days	90 Days or	Total Past	Current	Total	90+ Days	Nonaccrual
	Past Due	More	Due			Past Due and	
		Past Due			Loans	Still Accruing	Loans
Commercial and agriculture	\$ 42	\$ 39	\$ 81	\$ 28,387	\$ 28,468	\$ -	\$ 39
Construction and development	-	-	-	5,520	5,520	-	-
Farmland	-	-	-	6,303	6,303	-	-
1-4 Residential mortgage	1,051	365	1,416	19,608	21,024	-	365
Multifamily	-	-	-	9,250	9,250	-	-
Consumer and other	16	-	16	1,378	1,394	-	-
Total	\$ 1,109	\$ 404	\$ 1,513	\$ 70,446	\$ 71,959	\$ -	\$ 404

  

Analysis of Past Due and Nonaccrual Loans							
December 31, 2015	30-89 Days	90 Days or	Total Past	Current	Total	90+ Days	Nonaccrual
	Past Due	More	Due			Past Due and	
		Past Due			Loans	Still Accruing	Loans
Commercial and agriculture	\$ 237	\$ 48	\$ 285	\$ 31,495	\$ 31,780	\$ -	\$ 48
Construction and development	-	-	-	4,694	4,694	-	-
Farmland	-	-	-	1,764	1,764	-	-
1-4 Residential mortgage	74	304	378	22,567	22,945	-	304
Multifamily	-	-	-	5,358	5,358	-	-
Consumer and other	2	-	2	2,173	2,175	-	-
Total	\$ 313	\$ 352	\$ 665	\$ 68,051	\$ 68,716	\$ -	\$ 352

**Impaired Loans** – A loan is considered impaired when it is probable that the Bank will be unable to collect all contractual principal and interest payments when due in accordance with the original or modified terms of the loan agreement. Smaller balance homogenous loans may be collectively evaluated for impairment. Impaired loans are measured based on the estimated fair value of the collateral less estimated cost to sell if the loan is considered collateral dependent. Impaired loans not considered to be collateral dependent are measured based on the present value of expected future cash flows. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments in determining the estimated fair value of particular properties. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. Accordingly, the amounts of any such potential changes and any related adjustments are generally recorded at the time such information is received. When the measurement of the impaired loan is less than the recorded investment in the loan, impairment is recognized by creating or adjusting an allocation of the allowance for loan losses and uncollected accrued interest is reversed against interest income. If ultimate collection of principal is in doubt, all cash receipts on impaired loans are applied to reduce the principal balance.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 6—Loans and the allowance for loan losses (continued)**

The following table is a summary of information related to impaired loans as of December 31, 2016 (in thousands):

December 31, 2016	Impaired Loans				
	Recorded Investment <sup>(1)</sup>	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and agriculture	\$ 1,758	\$ 1,754	\$ -	\$ 1,843	\$ 78
Construction and development	94	94	-	97	5
Farmland	-	-	-	-	-
1-4 residential mortgage	565	584	-	582	7
Multifamily	-	-	-	-	-
Consumer and other	4	3	-	7	-
Subtotal	<u>2,421</u>	<u>2,435</u>	<u>-</u>	<u>2,529</u>	<u>90</u>
With an allowance recorded:					
Commercial and agriculture	-	-	-	-	-
Construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 residential mortgage	221	219	6	225	15
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Subtotal	<u>221</u>	<u>219</u>	<u>6</u>	<u>225</u>	<u>15</u>
Totals:					
Commercial and agriculture	1,758	1,754	-	1,843	78
Construction and development	94	94	-	97	5
Farmland	-	-	-	-	-
1-4 residential mortgage	786	803	6	807	22
Multifamily	-	-	-	-	-
Consumer and other	4	3	-	7	-
Total	<u>\$ 2,642</u>	<u>\$ 2,654</u>	<u>\$ 6</u>	<u>\$ 2,754</u>	<u>\$ 105</u>

<sup>(1)</sup> Recorded investment is the loan balance, net of any charge-offs and deferred fees and costs.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 6—Loans and the allowance for loan losses (continued)**

The following table is a summary of information related to impaired loans as of December 31, 2015 (in thousands):

December 31, 2015	Impaired Loans				
	Recorded Investment <sup>(1)</sup>	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and agriculture	\$ 988	\$ 1,009	\$ -	\$ 1,031	\$ 61
Construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 residential mortgage	700	758	-	751	32
Multifamily	-	-	-	-	-
Consumer and other	11	1	-	11	-
Subtotal	<u>1,699</u>	<u>1,768</u>	<u>-</u>	<u>1,793</u>	<u>93</u>
With an allowance recorded:					
Commercial and agriculture	1,355	1,352	81	1,384	39
Construction and development	99	99	5	102	6
Farmland	-	-	-	-	-
1-4 residential mortgage	309	309	4	106	7
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Subtotal	<u>1,763</u>	<u>1,760</u>	<u>90</u>	<u>1,592</u>	<u>52</u>
Totals:					
Commercial and agriculture	2,343	2,361	81	2,415	100
Construction and development	99	99	5	102	6
Farmland	-	-	-	-	-
1-4 residential mortgage	1,009	1,067	4	857	39
Multifamily	-	-	-	-	-
Consumer and other	11	1	-	11	-
Total	<u>\$ 3,462</u>	<u>\$ 3,528</u>	<u>\$ 90</u>	<u>\$ 3,385</u>	<u>\$ 145</u>

<sup>(1)</sup> Recorded investment is the loan balance, net of any charge-offs and deferred fees and costs.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 6—Loans and the allowance for loan losses (continued)**

*Troubled Debt Restructuring* – A troubled debt restructured loan (“TDR”) is a loan for which the Bank, for reasons related to the borrower’s financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower’s financial difficulty, include but are not limited to: a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, and renewals. Troubled debt restructured loans are considered impaired and are individually evaluated for impairment.

The following table sets forth information with respect to the Bank’s troubled debt restructurings as of December 31, 2016 (in thousands):

	2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial and agriculture	5	\$ 1,519	\$ 1,519
Construction and development	1	94	94
Farmland	-	-	-
1-4 residential mortgage	1	199	199
Multifamily	-	-	-
Consumer and other	1	3	3
Total	8	\$ 1,815	\$ 1,815

During 2016, the Bank did not have any modified loans that were considered to be a TDR. Restructured loans are deemed to be in default if they become past due by 30 days or more.



**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 6—Loans and the allowance for loan losses (continued)**

The following table sets forth information with respect to the Bank's troubled debt restructurings as of December 31, 2015 (in thousands):

	2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial and agriculture	8	\$ 2,268	\$ 2,268
Construction and development	1	99	99
Farmland	-	-	-
1-4 residential mortgage	2	371	371
Multifamily	-	-	-
Consumer and other	1	11	11
	<u>12</u>	<u>\$ 2,749</u>	<u>\$ 2,749</u>

During 2015, the Bank modified one loan that was considered to be a TDR, the terms of which were modified. The Bank had no such TDR's modified during the year ended December 31, 2015, that subsequently defaulted. Restructured loans are deemed to be in default if they become past due by 30 days or more.

**Note 7—Premises and equipment**

Following is a summary of the Company's premises and equipment at December 31:

	2016	2015
Land	\$ 848,037	\$ 848,037
Buildings	1,934,071	1,918,771
Leasehold improvements	15,140	15,140
Furniture and equipment	770,050	756,374
	<u>3,567,298</u>	<u>3,538,322</u>
Less accumulated depreciation	<u>(1,337,627)</u>	<u>(1,214,584)</u>
Total	<u>\$ 2,229,671</u>	<u>\$ 2,323,738</u>

Depreciation and amortization amounting to \$123,043 and \$130,699 for the years ended December 31, 2016 and 2015, respectively, is included in occupancy and equipment expense and data processing expense.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*DECEMBER 31, 2016 AND 2015*

**Note 8—Real estate owned**

The following summarizes the activity in real estate owned:

	<b>2016</b>	<b>2015</b>
Balance, beginning of year	\$ 1,746,243	\$ 3,312,105
Proceeds from sales	(309,257)	(1,326,679)
Loss on sales	(40,414)	(127,087)
Writedowns	-	(112,096)
Balance, end of year	<u>\$ 1,396,572</u>	<u>\$ 1,746,243</u>

**Note 9—Deposits**

Deposit account balances at December 31 are summarized as follows:

	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands)</b>	
Demand	\$ 17,213	\$ 12,779
Savings	3,464	3,491
Money market accounts	37,983	35,955
Time Deposits	33,433	38,314
	<u>\$ 92,093</u>	<u>\$ 90,539</u>

At December 31, 2016, the scheduled maturities of time deposits (dollars in thousands) are as follows:

**Years Ending December 31,**

2017	\$ 10,545
2018	10,558
2019	8,602
2020	1,773
2021	1,955
Total	<u>\$ 33,433</u>

The above table includes time deposits of \$250,000 and over, which at December 31, 2016 and 2015, totaled \$6.4 million and \$7.1 million, respectively.

Deposits from directors, executive officers, and their affiliates at December 31, 2016 and 2015, amounted to approximately \$6.2 million and \$3.7 million, respectively.

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 10—Operating leases

The Company leases certain assets under long-term leases. The majority of the Company's leases are operating leases for a period of three to five years with renewal options.

Rental expense amounting to \$30,726 and \$28,999 during the years ended December 31, 2016 and 2015, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations. Future minimum lease payments are as follows:

#### Years Ending December 31,

2017	\$	24,068
2018		9,028
2019		158
Total	\$	<u>33,254</u>

### Note 11—Borrowings and FHLB Advances

In 2016 and 2015, the Company did not have an unsecured federal funds line. The Company has a line of credit with the Federal Reserve Bank in the total available amounts of \$6.0 million as of December 31, 2016 and 2015, respectively, which is secured by substantially all of the Company's mortgage-backed securities. The Company did not use the line of credit in 2016 or 2015.

The Company has borrowings from the FHLB. Advances from the FHLB are secured by eligible securities and are listed below. The FHLB has placed a \$27,269,250 cap on the amount the Company can borrow.

Advances from the FHLB of Atlanta consisted of the following at December 31:

<u>Maturity</u>	<u>Interest Rate</u>	<u>2016</u>	<u>2015</u>
January 20, 2017	0.61%	\$ 5,000,000	\$ -
December 13, 2017	2.85%	-	5,000,000
		<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

The Company prepaid the outstanding advance due on December 13, 2017 during October 2016. The prepayment resulted in a penalty of \$110,860, which is included in other non-interest expenses on the consolidated statement of operations.

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 11—Borrowings and FHLB Advances (continued)

On July 8, 2005, the Company formed CB Financial Capital Trust I, a Connecticut statutory trust (the “Trust”). On July 12, 2005, the Trust issued and sold \$5,000,000 of the Trust’s Floating rate preferred securities (the “Trust Preferred Securities”) to an institutional investor in a private placement and issued \$155,000 in common securities (the “Common Securities”) to the Company. The Trust Preferred Securities are fully and unconditionally guaranteed on a subordinated basis by the Company with respect to distributions and amounts payable upon liquidation, redemption, or repayment. The proceeds from the Trust’s sale of the Trust Preferred Securities and its sale of the Common Securities were used by the Trust to purchase \$5,155,000 of the Company’s Floating junior subordinated notes (the “Notes”). The net proceeds to the Company from its sale of the Notes to the Trust were invested in the Bank as additional capital to support growth and for other general corporate purposes. The Notes and the Trust Preferred Securities bear an interest rate of 185 basis points over the three-month LIBOR (London Inter-Bank Offered Rate). The Trust Preferred Securities generally rank equal to the Common Securities in priority of payment, but will rank prior to Common Securities if, and so long as, the Company fails to make principal or interest payment on the Notes. The Notes and Trust Preferred Securities each have 30-year lives and are callable by the Company or the Trust, at their option. The Notes qualify as Tier I capital under Federal Reserve Board guidelines. The Company has not included the Trust in the consolidated entity. However, the Notes issued by the Company and purchased by the Trust are included on the consolidated balance sheets. In addition, the related interest expense continues to be included on the consolidated income statements. The Company elected to defer interest payments on the Notes starting on March 15, 2010 until June 15, 2015. Interest expense on the notes was \$133,326 and \$132,527 for the years ended December 31, 2016 and 2015, respectively. Interest payments made on the Notes totaled \$584,121 and \$686,927 for years ended December 31, 2016 and 2015, respectively. Interest payable on the Notes amounted to approximately \$6,849 and \$5,177 at December 31, 2016 and 2015, respectively.

### Note 12—Income taxes

The significant components of the provision for income taxes are as follows:

	2016	2015
Current tax provision:		
Federal	\$ 12,765	\$ -
Total current taxes	12,765	-
Deferred tax provision:		
Federal	(1,905,979)	-
State	(85,310)	-
Total deferred taxes	(1,991,289)	-
Provision for income taxes	\$ (1,978,524)	\$ -

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 12—Income taxes (continued)**

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes is summarized below:

	<b>2016</b>	<b>2015</b>
Tax expense computed at the statutory federal rate	\$ 187,716	\$ 204,311
(Decrease) increase resulting from:		
State income taxes, net of federal effect	(85,310)	-
Nontaxable income	(38,825)	(116,598)
Reduction in NOL DTA due to IRC 382 limits	3,085,441	-
Other, net	(349)	(915)
Valuation allowance	(5,127,197)	(86,798)
Income taxes benefit	<u>\$ (1,978,524)</u>	<u>\$ -</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes at December 31 are as follows:

	<b>2016</b>	<b>2015</b>
Deferred tax assets relating to:		
Allowance for loan losses	\$ 172,801	\$ -
Pre-opening costs and expenses	435	569
Interest income on non-accrual loans	20,470	34,343
Investment and real estate owned impairment	149,352	175,921
Operating loss carryforwards	1,717,860	5,032,402
Investment securities available-for-sale	83,032	4,616
ATM Credit	11,934	-
Other	72,740	68,842
Total deferred tax assets	2,228,624	5,316,693
Valuation allowance	(96,425)	(5,223,622)
Total net deferred tax assets	<u>2,132,199</u>	<u>93,071</u>
Deferred tax liabilities relating to:		
Allowance for loan losses	-	28,327
Premises and equipment differences	29,341	43,644
Prepaid expenses	26,376	21,100
Other	2,160	-
Total deferred tax liabilities	<u>57,877</u>	<u>93,071</u>
Net deferred tax asset	<u>\$ 2,074,322</u>	<u>\$ -</u>

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 12—Income taxes (continued)

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. Management has determined that it is more likely than not that deferred tax assets will be realizable up to the recorded value. As a result management has reduced its valuation allowance from December 31, 2015, of \$5,223,622 down to \$96,425 as of December 31, 2016. Included in deferred tax assets are the tax benefits derived from federal net operating loss carry forwards of \$13.4 million and state net operating loss carry forwards of \$18 million which begin to expire in 2030 and 2028, respectively.

### Note 13—Other non-interest expense

The major components of other non-interest expense for the years ended December 31 are as follows:

	2016	2015
Postage, printing, and office supplies	\$ 50,845	\$ 56,638
Advertising and promotion	53,218	46,384
Professional services	178,077	222,777
FDIC insurance premiums	102,559	211,637
Other	384,181	314,183
Total	<u>\$ 768,880</u>	<u>\$ 851,619</u>

### Note 14—Regulatory matters

The Company 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 Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July 2013, the Federal Reserve Board approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel III Committee's December 2010 framework ("Basel III") for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III 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 specified 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 from and adjustments to capital as compared to existing regulations. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a phase-in period for certain components). CET1 capital for the Bank consists of common stock, related paid-in capital, and retained earnings. In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include accumulated other comprehensive income in CET1.

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 14—Regulatory matters (continued)

The Bank's actual capital amounts (in thousands) and ratios are presented in the table below:

	For the Bank		Minimum Requirements
	Capital Amount	Capital Ratio	For Capital Adequacy
<b>As of December 31, 2016</b>			
Total capital - (to risk-weighted assets)	\$ 11,815	17.05%	8.00%
Tier 1 capital (to risk-weighted assets)	10,940	15.79%	6.00%
CET1 risk based capital (to risk-weighted assets)	10,940	15.79%	4.50%
Leverage - Tier 1 capital (to average assets)	10,940	10.19%	4.00%
<b>As of December 31, 2015</b>			
Total capital - (to risk-weighted assets)	\$ 10,728	15.34%	8.00%
Tier 1 capital (to risk-weighted assets)	9,850	14.08%	6.00%
CET1 risk based capital (to risk-weighted assets)	9,850	14.08%	4.50%
Leverage - Tier 1 capital (to average assets)	9,850	9.12%	4.00%

The Company and the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation (hereinafter referred to as the "Supervisory Authorities") entered into a Consent Order effective February 11, 2010. Pursuant to the Private Placement, which occurred in June 2015, as discussed in Note 2, the Company used a portion of the proceeds to reduce deferred interest on its subordinated debt. Additionally, the Company has focused on improving net income by reducing operating expenses, as well as improving their capital ratios. Based on the improvements of the Company's financial position, and the requirements of the Consent Order being met, the Consent Order was terminated by the Federal Deposit Insurance Corporation on November 4, 2015. The Company continues to comply with further conditions agreed upon by the Company's Board of Directors and the Supervisory Authorities.

### Note 15—Commitments and contingencies

**Litigation** – In the normal course of business the Company is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the consolidated financial statements.

**Off-Balance Sheet Risk** – 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, undisbursed lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 15—Commitments and contingencies (continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company 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 borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

A summary of the contract amount of the Company's exposure to off-balance sheet credit risk as of December 31 is as follows:

	2016	2015
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 2,527	\$ 1,982
Undisbursed lines of credit	5,883	5,657
Commercial and standby letters of credit	5,591	4,369
Total	<u>\$ 14,001</u>	<u>\$ 12,008</u>

### Note 16—Disclosures about fair values of financial instruments

Financial instruments include cash and due from banks, interest-earning deposits in banks, federal funds sold, time deposits, investments, loans, stock in the FHLB of Atlanta, bank-owned life insurance, deposit accounts, and borrowings. Fair value estimates are made at a specific moment 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 Company's entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Company'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 matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

*Cash and Due from Banks, Interest-Earning Deposits in Banks, and Repurchase Agreements* – The carrying amounts for cash and due from banks, interest-earning deposits in banks, and federal funds sold approximate fair value because of the short maturities of those instruments.

*Certificates of Deposit* – The fair value of time deposits is estimated using rates currently offered for instruments of similar maturity.

*Investment Securities Available-for-Sale* – 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.



**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 16—Disclosures about fair values of financial instruments (continued)**

*Loans* – For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. No estimation has been included for credit quality.

*Accrued Interest* – The carrying amounts of accrued interest approximate fair value.

*Stock in Federal Home Loan Bank of Atlanta* – The fair value for FHLB stock approximates carrying value, based on the redemption provisions of the FHLB.

*Investment in Bank-Owned Life Insurance* – The carrying value of life insurance approximates fair value because this investment is carried at cash surrender value, as determined by the insurer.

*Deposits and Borrowings* – The fair value of demand, savings, money market, and NOW deposits is the amount payable on demand at the reporting date. The fair value of time deposits and borrowings is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

*Financial Instruments With Off-Balance Sheet Risk* – With regard to financial instruments with off-balance sheet risk discussed in Note 15, it is not practicable to estimate the fair value of future financing commitments.

The carrying amounts and estimated fair values of the Company's financial instruments, none of which are held for trading purposes, are as follows at December 31:

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	\$ 3,381	\$ 3,381	\$ 2,879	\$ 2,879
Interest-earning deposits in banks	4,275	4,275	3,847	3,847
Repurchase Agreements	2,488	2,488	-	-
Certificates of deposit	1,060	1,060	1,550	1,550
Investment securities available-for-sale	16,935	16,935	20,838	20,838
Accrued interest receivable	381	381	327	327
Federal Home Loan Bank stock	307	307	398	398
Investment in bank-owned life insurance	4,015	4,015	3,902	3,902
Loans, net	70,983	71,431	67,593	68,466
Financial Liabilities:				
Deposits	92,093	83,882	90,539	83,714
Borrowings	10,155	11,116	10,155	10,816
Accrued interest payable	22	22	25	25

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### **Note 16—Disclosures about fair values of financial instruments (continued)**

The Company groups assets and liabilities 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. These levels are:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Investment Securities Available-For-Sale* – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products, and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset-backed, and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Bank's securities are considered to be Level 2 securities.

*Impaired Loans* – Impairment of a loan is based on a loan's observable market price or the fair value of the collateral of a collateral dependent loan. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

*Real Estate Owned* – Foreclosed assets are adjusted to fair value upon transfer of the loans to real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 16—Disclosures about fair values of financial instruments (continued)**

*Recurring Fair Value* – The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis (dollars in thousands):

<b>December 31, 2016</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investment securities available-for-sale:				
Municipal securities	\$ 3,133	\$ -	\$ 3,133	\$ -
Government sponsored enterprises	8,561	-	8,561	-
Mortgage-backed securities	5,241	-	5,241	-
Total assets at fair value	<u>\$ 16,935</u>	<u>\$ -</u>	<u>\$ 16,935</u>	<u>\$ -</u>
<b>December 31, 2015</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investment securities available-for-sale:				
Municipal securities	\$ 1,221	\$ -	\$ 1,221	\$ -
Government sponsored enterprises	8,717	-	8,717	-
Mortgage-backed securities	10,900	-	10,900	-
Total assets at fair value	<u>\$ 20,838</u>	<u>\$ -</u>	<u>\$ 20,838</u>	<u>\$ -</u>

*Non-recurring Fair Value* – The table below presents the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis (dollars in thousands):

<b>December 31, 2016</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Impaired loans	\$ 2,642	\$ -	\$ -	\$ 2,642
Real estate owned	1,397	-	-	1,397
Total assets at fair value	<u>\$ 4,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,039</u>
<b>December 31, 2015</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Impaired loans	\$ 3,462	\$ -	\$ -	\$ 3,462
Real estate owned	1,746	-	-	1,746
Total assets at fair value	<u>\$ 5,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,208</u>

# CB FINANCIAL CORPORATION AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 16—Disclosures about fair values of financial instruments (continued)

*Level 3 Valuation Techniques* – For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2016 and 2015, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	\$ 2,642	Appraised Value/Comparable Sales Present Value of Future Cash Flows	Discount to reflect current market conditions and ultimate collectability	0% - 10%
Other Real Estate Owned	\$ 1,397	Appraised Value/ Comparable Sales	Discount to reflect current market conditions and ultimate	0% - 10%
	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	\$ 3,462	Appraised Value/Comparable Sales Present Value of Future Cash Flows	Discount to reflect current market conditions and ultimate collectability	0% - 10%
Other Real Estate Owned	\$ 1,746	Appraised Value/ Comparable Sales	Discount to reflect current market conditions and ultimate	0% - 10%

### Note 17—Employee and director benefit plans

*401(k) Plan* – The Company has a 401(k) Plan (the “Plan”) in which substantially all employees participate. Match contributions vest to the employee equally over a four-year period. In 2015, the Company instituted a policy to match 100% of employee contributions up to 6%. The 401(k) employer match was \$49,748 and \$16,598 for the years ended December 31, 2016 and 2015, respectively.

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 18—Parent company financial data**

CB Financial Corporation became the holding company for Cornerstone Bank on June 8, 2005. Following are condensed financial statements of CB Financial Corporation as of and for the years ended December 31, 2016 and 2015 (presented in thousands):

**Condensed Balance Sheets**  
**December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash on deposit in subsidiary	\$ -	\$ 63
Investment in subsidiary bank	12,388	9,598
Other assets	274	357
<b>Total Assets</b>	<b>\$ 12,662</b>	<b>\$ 10,018</b>
<b>LIABILITIES</b>		
Junior subordinated debentures	\$ 5,155	\$ 5,155
Other liabilities	7	5
<b>Total Liabilities</b>	<b>5,162</b>	<b>5,160</b>
Stockholders' Equity:		
Additional paid-in capital	18,233	18,233
Accumulated deficit	(10,589)	(13,123)
Accumulated other comprehensive loss	(144)	(252)
<b>Total Stockholders' Equity</b>	<b>7,500</b>	<b>4,858</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 12,662</b>	<b>\$ 10,018</b>

**Condensed Statements of Operations**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Equity in earnings of bank subsidiary	\$ 2,682	\$ 774
Other income	6	22
Interest expense	(133)	(133)
Other expense	(21)	(62)
<b>Net income</b>	<b>\$ 2,534</b>	<b>\$ 601</b>

**CB FINANCIAL CORPORATION AND SUBSIDIARY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**Note 18—Parent company financial data (continued)**

**Condensed Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,534	\$ (60)
Adjustments to reconcile net income		
to net cash used in operating activities:		
Equity in earnings of bank subsidiary	(2,682)	(774)
Increase (decrease) in other assets	83	(40)
Increase (decrease) in other liabilities	2	(549)
Net cash used in operating activities	<u>(63)</u>	<u>(1,423)</u>
<b>Cash flow from investing activities:</b>		
Investment in subsidiary	-	(2,006)
Net cash used in investing activities	<u>-</u>	<u>(2,006)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net of cost	-	2,826
Net cash provided by financing activities	<u>-</u>	<u>2,826</u>
Net (decrease) increase in cash and cash equivalents	(63)	58
Cash and cash equivalents, beginning of year	63	5
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 63</u>

**Note 19—Subsequent events**

The Company has evaluated subsequent events through March 21, 2017, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.



