Carolina
ALLIANCE BANK™
Here for You. Every Day.

January 31, 2017

Dear Fellow Shareholders:

The book has been closed on 2016, and what an exciting and interesting year it was for our bank. We truly appreciate the contributions of all of our associates in continuing unusual economic times.

We thought we would recap what we perceive to be major events impacting the bank in 2016:

- We were saddened with the loss of our very talented commercial lender and friend, Steve Rush, early in 2016. He continues to be very much missed.

- We also lost one of our founding board members, Vic Bailey, Jr. He was a dynamic community leader, exceptional business man, and friend. We miss his great support of our bank.

- With a full year of the benefits of the earning assets and customer base added in the Pinnacle merger late last year and by having no merger expenses in 2016, earnings were substantially improved versus 2015.

- As we have noted in prior letters over the past several quarters, net interest margin compression has continued across our industry, and we were not exempt from this trend. With interest rates well below historical norms, both new and renewing loans continue to be added at lower rates. We expect the compression to continue in the rising interest rate environment predicted for 2017, as we believe that our loan portfolio's upward repricing will lag the repricing of our deposits. We are closely managing our funding costs to minimize this expected impact.

- The bank's loan portfolio grew less than our expectations due to unprecedented unscheduled principal reductions and payoffs in 2016. We have analyzed these payoffs, and the vast majority were not lost to competing institutions but were for other reasons, including, among others, unscheduled principal payments due to our customers' sales of commercial real estate that secured our loans primarily as a result of a very favorable and active commercial real estate market in 2016. These properties were largely sold to non-customer purchasers, many of whom were from out of state, and thus we were not able to make new loans to the purchasers. We also saw many of our commercial customers pay down their debts from available cash flow from their businesses, which had accumulated cash from strong performance over the past couple of years. Nevertheless, offsetting these principal inflows were record loan originations by our lenders, which allowed us to increase gross loans and leases 4.5% during the year.

- While loan growth and the associated interest income were below our expectations, our mortgage origination volume and income were far better than anticipated and served to offset the lower than expected loan interest income. We are so proud of our mortgage origination team.

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- Additionally, our leasing operations experienced a very strong year and we appreciate their solid performance. We will be moving the South Carolina leasing department into the main office in Spartanburg within the next 60 days. One objective of this move is the facilitation of more interaction between leasing and commercial account officers for better leasing penetration in our commercial lending customer base. We also added one leasing account officer in 2016 to cover the western upstate area.

- In addition to adding a leasing account officer, we added commercial lenders in our offices in Charlotte and Anderson, as well as adding other strategic hires to support our growth plan.

- As for overall growth, 2016 was also a good growth year for deposit balances, which increased by approximately 6%; when considered with customer balances that were held in overnight repurchase agreements, the growth was over 8%.

- As we have noted in earlier correspondence, we determined in mid-2016 that we needed to conduct more outreach to investors, potential investors, and investment professionals. We developed an investor presentation and conducted a number of presentations, directed to both in-market and out-of-market audiences. We will continue to seek opportunities for investor outreach during 2017.

- To further our growth opportunities, our Board approved the creation of a holding company for our bank, which will be subject to regulatory and shareholder approval. We believe that this is a needed addition to our overall corporate structure and will give us much needed flexibility as we move forward. Details on this proposed holding company formation will be shared in the proxy statement for our 2017 Annual Meeting.

- Credit quality continued to improve in 2016 in terms of delinquencies and charge-offs. We commend our lenders and credit officers for the excellent work in loan quality and managing credit risk.

- Finally, we need to comment on the closure of our Seneca limited service branch office as of December 31, 2016. With the loss of the market leader to a competing bank in that market and with the office's growth rate being less than our expectations, the Board decided that it was in the best interest of the bank to close the office and focus efforts on other existing offices. With the Seneca branch's relatively small customer base and limited infrastructure, there will be little disruption to the bank.

The financial highlights for the year ended December 31, 2016 follow below. Condensed financial statements and other financial data follow this letter.

- Net income available to common shareholders was $4.1 million, or $0.63 per diluted common share, for the year ended December 31, 2016. This compares to $1.8 million, or $0.35 per diluted common share, for the year ended December 31, 2015. This increase in earnings is attributable to increased net interest income on average earning assets, which is primarily attributable to assets added in the Pinnacle merger that occurred on October 3, 2015. Non-interest income increased largely due to the larger customer base after the Pinnacle merger and due to increased mortgage origination income from Pinnacle's well-developed mortgage loan department. These increases in revenue were partially offset by increased operating expenses, primarily attributable to the additional facilities and personnel added in connection with the Pinnacle merger.

- Total assets stood at $642.0 million at December 31, 2016 compared to $608.3 million at December 31, 2015, an increase of $33.7 million, or 5.5%.

- At December 31, 2016, gross loans and leases totaled $495.2 million compared to $473.9 million at December 31, 2015, an increase of approximately $21.3 million, or 4.5%.

- Total deposits increased to $527.6 million at December 31, 2016 from $495.8 million on December 31, 2015, an increase of $31.8 million, or 6.4%.

- Total shareholders' equity was $70.2 million at December 31, 2016 compared to $71.9 million at December 31, 2015. The decrease was from the redemption in 2016 of $5.0 million of preferred stock that had been issued under the U.S. Treasury's Small Business Lending Fund, offset partially by current year earnings. The bank's capital levels continue to exceed the minimum standards necessary to be classified by federal regulatory agencies as "well-capitalized."

- Non-performing assets as a percentage of total assets at December 31, 2016 decreased to 0.32% from a year prior at 0.92%. Non-performing assets were $2.1 million at December 31, 2016, as compared to $5.6 million at December 31, 2015.

In summary, we are pleased with the bank's performance in 2016, particularly since the Pinnacle merger was only three months behind us as we started the year. Even with continuing integration efforts in the first part of the year, our people made great strides in advancing our growth plan and building value. We thank them, and we thank our loyal shareholders for their continuing support. We believe that the bank is well positioned for growth, is in excellent markets, and has the right team assembled to achieve our goals. We are truly excited about this New Year and the prospect of continuing achievement in 2017.

Thank you for your continuing support.

Yours truly,

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

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

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

CAROLINA ALLIANCE BANK
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	December 31, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 13,100,026	$ 13,691,043
Federal funds sold and interest bearing bank balances	5,894,070	4,853,946
Investment securities available for sale	97,976,406	90,475,629
Other investments	1,461,600	1,730,900
Loans held for sale	2,093,952	632,828
Loans and leases, net of allowance for losses (see "Asset Quality Data")	488,136,402	468,606,158
Premises and equipment, net	8,777,403	8,633,237
Leased assets	5,104,187	4,435,290
Accrued interest	1,567,568	1,559,163
Other assets	17,922,161	13,672,419
Total assets	$ 642,033,775	$ 608,290,613
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	$ 527,600,928	$ 495,822,876
Securities sold to customers under agreements to repurchase	16,711,164	7,648,088
Other borrowings	24,680,000	28,600,000
Accrued interest	115,025	99,399
Accrued expenses and other	2,700,846	4,242,036
Total liabilities	571,807,963	536,412,399
Shareholders' equity[1]:		
Preferred stock	-	5,000
Common stock	6,534,831	6,517,436
Additional paid in capital	59,055,108	63,851,876
Retained earnings	5,568,116	1,447,595
Accumulated other comprehensive income (loss)	(932,243)	56,307
Total shareholders' equity	70,225,812	71,878,214
Total liabilities and shareholders' equity	$ 642,033,775	$ 608,290,613
Book value per common share	$ 10.75	$ 10.27
Tangible book value per common share	$ 9.91	$ 9.89

[1] The 5% stock dividend declared on January 12, 2016 was recorded as if it occurred on December 31, 2015.

CAROLINA ALLIANCE BANK
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest Income:				
Loans and leases	$ 5,521,279	$ 5,812,708	$ 22,688,552	$ 17,990,789
Investment securities	508,396	469,175	2,056,200	1,498,322
Federal funds sold and bank deposits	10,048	10,529	55,118	35,298
Total interest income	6,039,723	6,292,412	24,799,870	19,524,409
Interest Expense:				
Deposits	586,580	473,451	2,320,426	1,273,717
Other borrowings	62,738	43,672	229,210	136,612
Total interest expense	649,318	517,123	2,549,636	1,410,329
Net Interest Income	5,390,405	5,775,289	22,250,234	18,114,080
Provision for Loan Losses	160,000	224,997	210,000	910,210
Net Interest Income after Provision for Loan Losses	5,230,405	5,550,292	22,040,234	17,203,870
Non-Interest Income:				
Operating lease income	575,763	476,196	2,209,723	1,831,637
Service charges on deposit accounts	192,309	149,838	750,486	375,171
Mortgage brokerage	283,558	54,773	1,114,944	217,441
Gain (loss) on sale of investment securities	-	13,246	79,346	(18,604)
Gain (loss) on sale of assets	2,414	(1,768)	13,481	43,606
Other income	272,944	173,969	801,788	404,931
Total non-interest income	1,326,988	866,254	4,969,768	2,854,182
Non-Interest Expense:				
Salaries and employee benefits	2,895,992	2,848,631	11,413,587	8,607,921
Occupancy and equipment	504,088	454,981	2,001,193	1,395,474
Operating lease expense	509,609	418,538	1,948,623	1,600,623
Data processing	509,782	403,712	2,048,689	1,295,982
Marketing	41,253	82,341	324,906	307,089
Postage, supplies and printing	46,732	49,535	207,483	162,609
Merger-related expenses	-	563,486	-	1,026,332
Other expense	652,929	654,529	2,925,533	2,392,726
Total non-interest expense	5,160,385	5,475,753	20,870,014	16,788,756
Income Before Income Taxes	1,397,008	940,793	6,139,988	3,269,296
Income Tax Expense	366,218	230,000	1,987,384	1,369,955
Net Income	1,030,790	710,793	4,152,604	1,899,341
Preferred Dividends Declared	-	12,500	7,083	50,000
Net Income Available to Common Shareholders	$ 1,030,790	$ 698,293	$ 4,145,521	$ 1,849,341
Basic Net Income per Common Share[(1)]:	$ 0.16	$ 0.11	$ 0.64	$ 0.35
Diluted Net Income per Common Share[(1)]:	$ 0.15	$ 0.11	$ 0.63	$ 0.35
Weighted Average Common Shares Outstanding[(1)]:				
Basic	6,532,299	6,480,307	6,525,814	5,218,750
Diluted	6,659,897	6,554,555	6,600,368	5,290,999

[(1)] 2015 share and per share amounts have been adjusted to reflect the 5% stock dividend in 2016.

CAROLINA ALLIANCE BANK
REGULATORY CAPITAL
(Unaudited)

	December 31, 2016			
	Actual		Minimum to be Classified "Well Capitalized" [1]	
	Amount	Ratio	Amount	Ratio
	(Amounts in $000)			
Common equity tier 1 capital (to risk weighted assets)	$66,543	11.7%	$29,058	5.1%
Tier 1 capital (to risk weighted assets)	$66,543	11.7%	$37,563	6.6%
Total capital (to risk weighted assets)	$71,523	12.6%	$48,903	8.6%
Tier 1 capital (to average assets)	$66,543	10.6%	$25,144	4.0%

[1] Includes Capital Conservation Buffer

CAROLINA ALLIANCE BANK
ASSET QUALITY DATA
(Unaudited)

	December 31, 2016	December 31, 2015
Gross loans[1]	$ 495,184,964	$ 473,917,893
Allowance for loan losses	4,954,610	4,678,907
Net loans	$ 490,230,354	$ 469,238,986
Allowance as a percent of gross loans	1.00%	0.99%
Loans charged off (recovered), net (year to date)	$ (65,703)	$ 177,708
Net loans charged off as a percent of gross loans	-0.01%	0.04%
Loans past due 30-89 days	$ 3,036,762	$ 442,064
Non-accrual loans	$ 1,937,279	$ 3,128,461
Real estate acquired in settlement of loans	127,595	1,465,690
Total non-performing assets	$ 2,064,874	$ 4,594,151
Non-accrual loans as a percent of gross loans	0.39%	0.66%
Non-performing assets as a percent of total assets	0.32%	0.76%
Net losses on real estate or repossessed property acquired in settlement of loans	$ 124,274	$ 82,502

[1] "Loans" as used in this schedule includes finance leases.

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

	As of and for the Year Ended December 31,					
	2016			2015		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	$ 5,894,070	$ 9,085,054	0.61%	$ 4,853,946	$ 7,465,810	0.47%
Investment securities	97,976,406	95,540,854	2.08%	90,475,629	67,763,323	2.14%
Other investments	1,461,600	1,414,991	4.96%	1,730,900	1,333,128	3.77%
Loans and leases, gross	495,184,964	477,751,132	4.75%	473,917,893	369,107,226	4.87%
Total earning assets and yield	$600,517,040	$583,792,031	4.25%	$570,978,368	$445,669,487	4.38%
Liabilities:						
Non-interest-bearing demand deposits	$101,185,722	$ 95,490,424	0.00%	$ 88,691,296	$ 64,511,381	0.00%
Interest-bearing demand deposits	68,309,702	56,727,373	0.22%	53,194,035	34,778,632	0.17%
Savings deposits	74,715,527	73,682,565	0.37%	57,377,716	41,384,553	0.26%
Money market accounts	139,160,239	153,713,866	0.41%	168,917,417	139,152,461	0.34%
Time deposits	144,229,738	138,281,487	0.94%	127,642,410	104,157,658	0.80%
Total deposits and cost of deposits	527,600,928	517,895,715	0.45%	495,822,874	383,984,685	0.33%
Federal funds purchased	3,180,000	453,405	0.79%	-	547,969	0.63%
Securities sold under agreements to repurchase	16,711,164	13,162,111	0.45%	7,648,088	5,878,255	0.30%
FHLB advances	21,500,000	20,310,929	0.79%	28,600,000	20,532,497	0.52%
Other	100,000	158,197	3.30%	200,000	257,534	3.02%
Total interest-bearing liabilities and cost of funds	$569,092,092	$551,980,357	0.46%	$532,270,962	$411,200,940	0.34%
Total earning assets and net interest margin	$600,517,040	$583,792,031	3.81%	$570,978,368	$445,669,487	4.07%