



July 24, 2017

Dear Fellow Shareholders:

With summer in full swing, it is hard to believe that over half of 2017 is already in the books! The first six months of 2017 have gone well for the bank, and we are optimistic about the remainder of the year as well.

The first half of 2017 continued the uptick in growth in loans and customer deposits that we saw beginning in the fourth quarter of 2016. Our loan pipeline remains very strong, and unscheduled loan payouts have abated slightly. We are diligently working to diminish the impact of the increase in short-term interest rates effected by recent actions of the Federal Reserve Bank ("FRB"). At the present time, our deposits and other borrowings are more sensitive to upward interest rate movements than our loans and investments because, on average, our liabilities have a shorter term remaining until repricing than our loans and investments. However, market rates for deposits have not increased in the same proportion as the rate increases imposed by the FRB. This moderation in market deposit rates and the favorable impact of the rate increases on our variable-rate loans have helped the bank maintain its net interest margin through the first half of the year.

We have been pleased with the progress that our newest offices, Easley and Anderson, have made this year. We are also extremely pleased to have Mark Spears join our South Carolina Leasing Department to expand the business that Dave McBride has directed for us over the last several years. Mark has extensive experience in the automobile arena in Greenville, which positions us to expand our leasing services in Greenville and the rest of our growing South Carolina Western Region.

Summarized financial information as of and for the six-month period ended June 30, 2017 follows this letter. The following notes highlight these periods.

- Net income available to common shareholders was \$2.1 million or \$0.30 per diluted common share for the six months ended June 30, 2017. This compares to net income available to common shareholders of \$1.9 million or \$0.29 per diluted common share for the same period in 2016. Interest income increased slightly on increased average balances of earning assets, largely offset by lower average rates earned during the six-month period. Interest expense also increased from increased average balances of deposits and borrowings with average rates paid being substantially unchanged. Increased non-interest income and decreased income tax expense were key contributors to the increased net income.
- Total assets grew to \$673.1 million from \$633.5 million, an increase of 6.3%, comparing June 30, 2017 to June 30, 2016 balances.
- Gross loans and leases totaled \$510.8 million at June 30, 2017 compared to \$475.3 million at June 30, 2016, an increase of \$35.5 million, or 7.5%.

- Total deposits were \$544.2 million at June 30, 2017 compared to \$527.1 million at June 30, 2016, an increase of \$17.1 million, or 3.3%.
- Total shareholders' equity increased to \$75.9 million at June 30, 2017 from \$70.1 million at June 30, 2016, representing 11.3% and 11.1% of total assets, respectively. The bank's capital levels continue to exceed the levels required by regulatory standards to be classified as "well capitalized," which is the highest of the five regulator-defined capital categories used to describe an institution's capital strength.
- Non-performing assets remained at a very low percentage of total assets, particularly when compared to our peers, although the June 30, 2017 percentage of 0.69% of total assets does represent a slight increase over the 0.39% of total assets reported as of June 30, 2016.

We continue to be pleased with the bank's performance during these periods, especially considering the competitive markets in which we operate.

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

Yours truly,



John S. Poole
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 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)

	June 30, 2017	December 31, 2016	June 30, 2016
Assets			
Cash and due from banks	\$ 21,848,474	\$ 13,100,026	\$ 16,703,017
Federal funds sold and interest bearing bank balances	1,166,722	5,894,070	13,042,389
Investment securities available for sale	103,147,893	97,976,406	96,398,454
Other investments	1,577,500	1,461,600	1,164,100
Loans held for sale	1,365,783	2,093,952	605,202
Loans and leases, net of allowance for losses (see "Asset Quality Data")	504,246,563	488,136,402	469,899,545
Premises and equipment, net	8,518,880	8,777,157	8,497,526
Leased assets	5,259,140	5,104,187	5,598,798
Bank-owned life insurance	17,022,655	11,358,608	11,194,784
Goodwill	4,057,337	4,057,337	4,416,896
Core deposit intangible	1,230,038	1,404,266	1,591,799
Other assets	<u>3,633,144</u>	<u>3,568,978</u>	<u>4,341,703</u>
Total assets	<u>\$ 673,074,129</u>	<u>\$ 642,932,989</u>	<u>\$ 633,454,213</u>
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	\$ 544,247,193	\$ 527,599,212	\$ 527,088,089
Securities sold to customers under agreements to repurchase	16,322,076	16,711,164	17,028,774
Other borrowings	33,295,000	24,680,000	14,500,000
Accrued interest	120,828	115,025	111,531
Accrued expenses and other	<u>3,198,958</u>	<u>3,532,144</u>	<u>4,636,214</u>
Total liabilities	<u>597,184,055</u>	<u>572,637,545</u>	<u>563,364,608</u>
Shareholders' equity:			
Common stock	6,832,852	6,534,833	6,523,863
Additional paid in capital	61,385,806	59,055,109	58,948,957
Retained earnings	7,655,999	5,569,583	3,301,933
Accumulated other comprehensive income (loss)	<u>15,417</u>	<u>(864,081)</u>	<u>1,314,852</u>
Total shareholders' equity	<u>75,890,074</u>	<u>70,295,444</u>	<u>70,089,605</u>
Total liabilities and shareholders' equity	<u>\$ 673,074,129</u>	<u>\$ 642,932,989</u>	<u>\$ 633,454,213</u>
Book value per common share	<u>\$ 11.11</u>	<u>\$ 10.76</u>	<u>\$ 10.74</u>
Tangible book value per common share	<u>\$ 10.33</u>	<u>\$ 9.92</u>	<u>\$ 9.56</u>
Common shares outstanding	<u>6,832,854</u>	<u>6,534,833</u>	<u>6,523,863</u>

CAROLINA ALLIANCE BANK
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Income:				
Loans and leases	\$ 5,763,697	\$ 5,697,498	\$ 11,335,157	\$ 11,387,061
Investment securities	560,274	510,217	1,099,325	1,021,060
Federal funds sold and bank deposits	39,440	18,580	65,896	29,343
Total interest income	<u>6,363,411</u>	<u>6,226,295</u>	<u>12,500,378</u>	<u>12,437,464</u>
Interest Expense:				
Deposits	640,171	594,975	1,238,943	1,136,565
Other borrowings	84,190	53,268	174,446	113,532
Total interest expense	<u>724,361</u>	<u>648,243</u>	<u>1,413,389</u>	<u>1,250,097</u>
Net Interest Income	5,639,050	5,578,052	11,086,989	11,187,367
Provision for Loan Losses	<u>126,000</u>	<u>-</u>	<u>252,000</u>	<u>50,000</u>
Net Interest Income after Provision for Loan Losses	<u>5,513,050</u>	<u>5,578,052</u>	<u>10,834,989</u>	<u>11,137,367</u>
Non-Interest Income:				
Operating lease income	606,150	564,755	1,204,725	1,055,749
Service charges on deposit accounts	218,735	186,958	415,397	369,485
Mortgage brokerage	172,156	286,309	383,386	478,064
Gain on sale of investment securities	-	-	2,606	-
Gain (loss) on sale of assets	55	14,544	14,656	13,648
Other income	326,291	133,300	561,961	272,739
Total non-interest income	<u>1,323,387</u>	<u>1,185,866</u>	<u>2,582,731</u>	<u>2,189,685</u>
Non-Interest Expense:				
Salaries and employee benefits	2,813,021	2,861,095	5,611,098	5,627,726
Occupancy and equipment	514,612	492,124	1,036,108	998,973
Operating lease expense	527,412	496,798	1,054,456	927,773
Data processing	590,227	520,226	1,136,559	1,025,000
Marketing	78,786	117,238	150,115	173,342
Postage, supplies and printing	51,723	53,571	103,643	109,672
Other expense	848,556	808,664	1,564,325	1,593,145
Total non-interest expense	<u>5,424,337</u>	<u>5,349,716</u>	<u>10,656,304</u>	<u>10,455,631</u>
Income Before Income Taxes	1,412,100	1,414,202	2,761,416	2,871,421
Income Tax Expense	<u>299,500</u>	<u>453,607</u>	<u>675,000</u>	<u>985,000</u>
Net Income	1,112,600	960,595	2,086,416	1,886,421
Preferred Dividends Declared	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,083</u>
Net Income Available to Common Shareholders	<u>\$ 1,112,600</u>	<u>\$ 960,595</u>	<u>\$ 2,086,416</u>	<u>\$ 1,879,338</u>
Basic Net Income per Common Share:	<u>\$ 0.16</u>	<u>\$ 0.15</u>	<u>\$ 0.31</u>	<u>\$ 0.29</u>
Diluted Net Income per Common Share:	<u>\$ 0.16</u>	<u>\$ 0.15</u>	<u>\$ 0.30</u>	<u>\$ 0.29</u>
Weighted Average Common Shares Outstanding:				
Basic	6,818,156	6,523,863	6,724,928	6,521,968
Diluted	<u>6,917,037</u>	<u>6,581,160</u>	<u>6,842,561</u>	<u>6,577,560</u>

CAROLINA ALLIANCE BANK
REGULATORY CAPITAL
(Unaudited)

	June 30, 2017					
	Actual		Minimum Basel III Phase In Requirement ⁽¹⁾		Minimum to be Classified "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Amounts in \$000)					
Common equity tier 1 capital (to risk weighted assets)	\$71,173	12.0%	\$33,982	5.8%	\$38,415	6.5%
Tier 1 capital (to risk weighted assets)	\$71,173	12.0%	\$42,847	7.3%	\$47,280	8.0%
Total capital (to risk weighted assets)	\$76,415	12.9%	\$54,667	9.3%	\$59,100	10.0%
Tier 1 capital (to average assets)	\$71,173	11.1%	\$25,587	4.0%	\$31,983	5.0%

⁽¹⁾ Includes Capital Conservation Buffer

CAROLINA ALLIANCE BANK
ASSET QUALITY DATA
(Unaudited)

	June 30, 2017	December 31, 2016	June 30, 2016
Gross loans ⁽¹⁾	\$ 510,829,137	\$ 495,184,964	\$ 475,288,733
Allowance for loan losses	5,216,791	4,954,610	4,783,986
Net loans	<u>\$ 505,612,346</u>	<u>\$ 490,230,354</u>	<u>\$ 470,504,747</u>
Allowance as a percent of gross loans	<u>1.02%</u>	<u>1.00%</u>	<u>1.01%</u>
Loans charged off (recovered), net (year to date)	<u>\$ (10,181)</u>	<u>\$ (65,703)</u>	<u>\$ (55,078)</u>
Net loans charged off as a percent of gross loans	<u>0.00%</u>	<u>-0.01%</u>	<u>-0.01%</u>
Loans past due 30-89 days	<u>\$ 85,018</u>	<u>\$ 2,693,367</u>	<u>\$ 463,454</u>
Non-accrual loans	\$ 4,597,773	\$ 1,937,279	\$ 1,681,088
Real estate acquired in settlement of loans	<u>79,292</u>	<u>127,595</u>	<u>787,268</u>
Total non-performing assets	<u>\$ 4,677,065</u>	<u>\$ 2,064,874</u>	<u>\$ 2,468,356</u>
Non-accrual loans as a percent of gross loans	<u>0.90%</u>	<u>0.39%</u>	<u>0.35%</u>
Non-performing assets as a percent of total assets	<u>0.69%</u>	<u>0.32%</u>	<u>0.39%</u>
Net losses (gains) on real estate or repossessed property acquired in settlement of loans	<u>\$ 65,851</u>	<u>\$ 124,274</u>	<u>\$ 90,664</u>

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

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

	As of and for the Six Months Ended June 30,					
	2017			2016		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	\$ 1,166,722	\$ 11,926,678	1.11%	\$ 13,042,389	\$ 6,826,720	0.86%
Investment securities	103,147,893	99,319,397	2.15%	96,398,454	95,464,051	2.06%
Other investments	1,577,500	1,629,788	4.78%	1,164,100	1,283,374	6.48%
Loans and leases, gross	510,829,137	500,165,939	4.57%	475,288,733	476,563,059	4.81%
Total earning assets and yield	<u>\$ 616,721,252</u>	<u>\$ 613,041,802</u>	<u>4.11%</u>	<u>\$ 585,893,676</u>	<u>\$ 580,137,204</u>	<u>4.31%</u>
Liabilities:						
Non-interest-bearing demand deposits	\$ 110,636,064	\$ 104,477,338	0.00%	\$ 92,872,674	\$ 92,418,725	0.00%
Interest-bearing demand deposits	65,086,946	61,260,955	0.25%	58,056,982	52,003,936	0.21%
Savings deposits	83,102,564	77,085,562	0.33%	85,728,253	77,393,192	0.34%
Money market accounts	145,672,113	152,490,553	0.41%	149,691,663	162,124,233	0.43%
Time deposits	139,749,506	145,142,523	1.01%	140,738,517	135,666,507	0.89%
Total deposits and cost of deposits	544,247,193	540,456,931	0.46%	527,088,089	519,606,593	0.44%
Federal funds purchased	9,795,000	999,381	1.16%	-	-	0.00%
Securities sold under agreements to repurchase	16,322,076	16,072,550	0.64%	17,028,774	10,907,012	0.38%
FHLB advances	23,500,000	24,798,343	0.94%	14,500,000	16,274,194	1.07%
Other	100,000	100,000	3.40%	200,000	200,000	3.31%
Total interest-bearing liabilities and cost of funds	<u>\$ 593,964,269</u>	<u>\$ 582,427,205</u>	<u>0.49%</u>	<u>\$ 558,816,863</u>	<u>\$ 546,987,799</u>	<u>0.46%</u>
Total earning assets and net interest margin	<u>\$ 616,721,252</u>	<u>\$ 613,041,802</u>	<u>3.65%</u>	<u>\$ 585,893,676</u>	<u>\$ 580,137,204</u>	<u>3.88%</u>