



October 31, 2017

Dear Fellow Shareholders:

We have a number of positives to report as we close out the third quarter of 2017. First, of course, was the Board's decision to authorize the 5% stock dividend that was issued in September. We believe the additional liquidity created by the issuance of the additional shares will be beneficial to shareholders.

On the banking front, both loan demand and new deposit account openings have been strong this quarter. The loan pipeline has been consistently robust throughout the quarter and continues to be so as we enter the fourth quarter. New deposit accounts, especially core checking and savings accounts, have grown at a vigorous pace, and we applaud our team and thank our customers for these results.

We also are excited about growth in other areas of our bank, such as leasing, electronic banking services, and merchant services, to name a few. These options not only improve our non-interest income, but they play an integral role in customer satisfaction by meeting the changing needs and expectations of our customers.

Speaking of growth, we are very pleased with the progress at our newer offices in Anderson and Easley. Both offices are getting excellent traction in all lines of business. In addition, during the third quarter, we completed the purchase of a former bank branch building in downtown Anderson and are looking forward to relocating to this traditional branch building in early 2018.

Growth seems to be the theme of this update, as we are also encouraged by the general economic improvement in all of our markets which provides us more opportunities to grow our loans and deposits. However, we will temper our growth with a continuing conservative loan underwriting philosophy.

Although it occurred after the end of the third quarter, we announced on October 23<sup>rd</sup> that the bank was reorganized into a bank holding company structure. In case you missed this news, the details are included in the announcement that is reproduced and included in this letter, following the financial tables.

Summarized financial information as of and for the three- and nine-month periods ended September 30, 2017 follows this letter. The following are highlights of the current quarter and year to date.

- Net income available to common shareholders was \$934,000, or \$0.13 per diluted common share, for the three months ended September 30, 2017 as compared to net income available to common shareholders of \$1.2 million, or \$0.18 per diluted common share, for the three months ended September 30, 2016.

- Net income available to common shareholders was \$3.0 million, or \$0.42 per diluted common share, for the nine months ended September 30, 2017 as compared to net income available to common shareholders of \$3.1 million, or \$0.45 per diluted common share, for the nine months ended September 30, 2016.
- While average balances of earning assets have increased, year-to-date net interest margin has decreased by 25 basis points compared to prior year, resulting in decreased net interest income. Increased non-interest income and decreased income tax expense partially offset the decreased net interest income.
- Total assets grew to \$685.9 million from \$626.4 million, an increase of 9.5%, comparing September 30, 2017 to September 30, 2016 balances.
- Gross loans and leases totaled \$515.3 million at September 30, 2017 compared to \$475.6 million at September 30, 2016, an increase of \$39.7 million, or 8.3%.
- Total deposits were \$557.3 million at September 30, 2017 compared to \$517.6 million at September 30, 2016, an increase of \$39.7 million, or 7.7%.
- Total shareholders' equity increased to \$76.9 million at September 30, 2017 from \$71.1 million at September 30, 2016, representing 11.2% and 11.3% 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 September 30, 2017 percentage of 0.46% of total assets does represent a slight increase over the 0.40% of total assets reported as of September 30, 2016.

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](mailto: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 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)

	<b>September 30,</b> <b>2017</b>	<b>December 31,</b> <b>2016</b>	<b>September 30,</b> <b>2016</b>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
<b>Assets</b>			
Cash and due from banks	\$ 20,618,555	\$ 13,100,026	\$ 16,625,408
Federal funds sold and interest bearing bank balances	12,903,033	5,894,070	5,826,671
Investment securities available for sale	100,934,175	97,976,406	97,494,588
Other investments	2,017,500	1,461,600	1,334,100
Loans held for sale	-	2,093,952	834,000
Loans and leases, net of allowance for losses (see "Asset Quality Data")	509,997,155	488,136,402	469,964,883
Premises and equipment, net	8,364,146	8,777,157	8,382,017
Leased assets	4,475,879	5,104,187	5,515,824
Bank-owned life insurance	17,147,938	11,358,608	11,276,447
Goodwill	4,057,337	4,057,337	4,057,337
Core deposit intangible	1,142,924	1,404,266	1,491,662
Other assets	<u>4,233,563</u>	<u>3,568,978</u>	<u>3,556,719</u>
 Total assets	 <u>\$ 685,892,205</u>	 <u>\$ 642,932,989</u>	 <u>\$ 626,359,656</u>
<b>Liabilities and Shareholders' Equity</b>			
Liabilities:			
Deposits	\$ 557,343,321	\$ 527,599,212	\$ 517,607,819
Securities sold to customers under agreements to repurchase	15,986,790	16,711,164	14,649,563
Other borrowings	31,500,000	24,680,000	18,500,000
Accrued interest	159,782	115,025	117,712
Accrued expenses and other	<u>4,047,038</u>	<u>3,532,144</u>	<u>4,407,977</u>
Total liabilities	<u>609,036,931</u>	<u>572,637,545</u>	<u>555,283,071</u>
Shareholders' equity:			
Common stock	7,190,961	6,534,833	6,531,723
Additional paid in capital	65,441,616	59,055,109	59,025,726
Retained earnings	4,355,537	5,569,583	4,537,326
Accumulated other comprehensive income (loss)	<u>(132,840)</u>	<u>(864,081)</u>	<u>981,810</u>
Total shareholders' equity	<u>76,855,274</u>	<u>70,295,444</u>	<u>71,076,585</u>
 Total liabilities and shareholders' equity	 <u>\$ 685,892,205</u>	 <u>\$ 642,932,989</u>	 <u>\$ 626,359,656</u>
 Book value per common share	 <u>\$ 10.69</u>	 <u>\$ 10.22</u>	 <u>\$ 10.34</u>
Tangible book value per common share	<u>\$ 9.96</u>	<u>\$ 9.42</u>	<u>\$ 9.56</u>
Common shares outstanding	<u>7,190,961</u>	<u>6,877,123</u>	<u>6,874,015</u>

**CAROLINA ALLIANCE BANK**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Interest Income:</b>				
Loans and leases	\$ 5,824,966	\$ 5,780,212	\$ 17,160,123	\$ 17,167,273
Investment securities	560,180	526,744	1,659,505	1,547,804
Federal funds sold and bank deposits	<u>16,450</u>	<u>15,727</u>	<u>82,346</u>	<u>45,070</u>
Total interest income	<u>6,401,596</u>	<u>6,322,683</u>	<u>18,901,974</u>	<u>18,760,147</u>
<b>Interest Expense:</b>				
Deposits	656,928	597,281	1,895,871	1,733,846
Other borrowings	<u>138,332</u>	<u>52,940</u>	<u>312,778</u>	<u>166,472</u>
Total interest expense	<u>795,260</u>	<u>650,221</u>	<u>2,208,649</u>	<u>1,900,318</u>
<b>Net Interest Income</b>	5,606,336	5,672,462	16,693,325	16,859,829
<b>Provision for Loan Losses</b>	<u>126,000</u>	<u>-</u>	<u>378,000</u>	<u>50,000</u>
<b>Net Interest Income after Provision for Loan Losses</b>	<u>5,480,336</u>	<u>5,672,462</u>	<u>16,315,325</u>	<u>16,809,829</u>
<b>Non-Interest Income:</b>				
Operating lease income	607,019	578,211	1,811,744	1,633,960
Service charges on deposit accounts	223,384	188,692	638,781	558,177
Mortgage brokerage	209,384	353,322	592,770	831,386
Gain on sale of investment securities	-	79,346	2,606	79,346
Gain (loss) on sale of assets	(331)	(2,581)	14,325	11,067
Other income	<u>339,525</u>	<u>256,105</u>	<u>901,486</u>	<u>528,844</u>
Total non-interest income	<u>1,378,981</u>	<u>1,453,095</u>	<u>3,961,712</u>	<u>3,642,780</u>
<b>Non-Interest Expense:</b>				
Salaries and employee benefits	2,985,902	2,889,869	8,597,000	8,517,595
Occupancy and equipment	513,750	498,132	1,549,858	1,497,105
Operating lease expense	534,692	511,241	1,589,148	1,439,014
Data processing	556,007	513,907	1,692,566	1,538,907
Marketing	57,106	110,311	207,221	283,653
Postage, supplies and printing	49,293	51,079	152,936	160,751
Other expense	<u>738,903</u>	<u>679,459</u>	<u>2,303,228</u>	<u>2,272,604</u>
Total non-interest expense	<u>5,435,653</u>	<u>5,253,998</u>	<u>16,091,957</u>	<u>15,709,629</u>
<b>Income Before Income Taxes</b>	1,423,664	1,871,559	4,185,080	4,742,980
<b>Income Tax Expense</b>	<u>490,000</u>	<u>636,166</u>	<u>1,165,000</u>	<u>1,621,166</u>
<b>Net Income</b>	933,664	1,235,393	3,020,080	3,121,814
<b>Preferred Dividends Declared</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,083</u>
<b>Net Income Available to Common Shareholders</b>	<u>\$ 933,664</u>	<u>\$ 1,235,393</u>	<u>\$ 3,020,080</u>	<u>\$ 3,114,731</u>
<b>Basic Net Income per Common Share</b>	<u>\$ 0.13</u>	<u>\$ 0.18</u>	<u>\$ 0.42</u>	<u>\$ 0.45</u>
<b>Diluted Net Income per Common Share</b>	<u>\$ 0.13</u>	<u>\$ 0.18</u>	<u>\$ 0.42</u>	<u>\$ 0.45</u>
<b>Weighted Average Common Shares Outstanding:</b>				
Basic	<u>7,186,932</u>	<u>6,869,229</u>	<u>7,107,561</u>	<u>6,865,927</u>
Diluted	<u>7,287,218</u>	<u>6,928,666</u>	<u>7,222,666</u>	<u>6,922,801</u>

**CAROLINA ALLIANCE BANK  
REGULATORY CAPITAL  
(Unaudited)**

	<b>September 30, 2017</b>					
	<b>Actual</b>		<b>Minimum Basel III Phase In Requirement <sup>(1)</sup></b>		<b>Minimum to be Classified "Well Capitalized"</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
	(Amounts in \$000)					
Common equity tier 1 capital (to risk weighted asset:	\$72,332	12.0%	\$34,648	5.8%	\$39,167	6.5%
Tier 1 capital (to risk weighted assets)	\$72,332	12.0%	\$43,686	7.3%	\$48,206	8.0%
Total capital (to risk weighted assets)	\$77,709	12.9%	\$55,738	9.3%	\$60,257	10.0%
Tier 1 capital (to average assets)	\$72,332	10.8%	\$26,804	4.0%	\$33,505	5.0%

<sup>(1)</sup> Includes Capital Conservation Buffer

**CAROLINA ALLIANCE BANK**  
**ASSET QUALITY DATA**  
**(Unaudited)**

	<b>September 30, 2017</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Gross loans <sup>(1)</sup>	\$ 515,348,732	\$ 495,184,964	\$ 475,589,297
Allowance for loan losses	<u>5,351,577</u>	<u>4,954,610</u>	<u>4,790,414</u>
Net loans	<u>\$ 509,997,155</u>	<u>\$ 490,230,354</u>	<u>\$ 470,798,883</u>
Allowance as a percent of gross loans	<u>1.04%</u>	<u>1.00%</u>	<u>1.01%</u>
Charged off loan recoveries, net (year to date)	<u>\$ (18,966)</u>	<u>\$ (65,703)</u>	<u>\$ (61,507)</u>
Net loan recoveries 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>\$ 354,480</u>	<u>\$ 2,693,367</u>	<u>\$ 599,664</u>
Non-accrual loans	\$ 3,155,219	\$ 1,937,279	\$ 2,179,609
Real estate acquired in settlement of loans	<u>-</u>	<u>127,595</u>	<u>308,518</u>
Total non-performing assets	<u>\$ 3,155,219</u>	<u>\$ 2,064,874</u>	<u>\$ 2,488,127</u>
Non-accrual loans as a percent of gross loans	<u>0.61%</u>	<u>0.39%</u>	<u>0.46%</u>
Non-performing assets as a percent of total assets	<u>0.46%</u>	<u>0.32%</u>	<u>0.40%</u>
Net losses on real estate and repossessed property acquired in settlement of loans	<u>\$ 78,145</u>	<u>\$ 124,274</u>	<u>\$ 124,274</u>

<sup>(1)</sup> "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 Nine Months Ended September 30,					
	2017			2016		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
<b>Assets:</b>						
Interest-earning deposits	\$ 12,903,033	\$ 9,323,757	1.18%	\$ 5,826,671	\$ 10,326,317	0.58%
Investment securities	100,934,175	100,327,447	2.14%	97,494,588	94,798,923	2.10%
Other investments	2,017,500	1,761,068	4.24%	1,334,100	1,434,706	5.23%
Loans and leases, gross	515,348,732	504,681,274	4.55%	475,589,297	475,666,229	4.82%
Total earning assets and yield	<u>\$631,203,440</u>	<u>\$616,093,546</u>	<u>4.10%</u>	<u>\$580,244,656</u>	<u>\$582,226,175</u>	<u>4.30%</u>
<b>Liabilities:</b>						
Non-interest-bearing demand deposits	\$115,320,907	\$108,617,513	0.00%	\$ 96,340,817	\$ 93,125,259	0.00%
Interest-bearing demand deposits	77,923,511	62,362,853	0.26%	61,230,221	54,643,147	0.21%
Savings deposits	77,239,851	78,391,965	0.33%	75,464,598	73,392,291	0.37%
Money market accounts	145,422,869	149,729,830	0.43%	141,376,244	158,479,541	0.42%
Time deposits	141,436,183	142,945,865	1.03%	143,195,939	136,552,907	0.93%
Total deposits and cost of deposits	557,343,321	542,048,026	0.47%	517,607,819	516,193,145	0.45%
Federal funds purchased	-	883,615	1.33%	-	562,742	0.78%
Securities sold under agreements to repurchase	15,986,790	16,276,519	0.66%	14,649,563	12,192,997	0.44%
FHLB advances	31,500,000	27,056,777	1.10%	18,500,000	19,743,796	0.80%
Other	-	78,755	3.39%	100,000	177,737	3.29%
Total interest-bearing liabilities and cost of funds	<u>\$604,830,111</u>	<u>\$586,343,692</u>	<u>0.50%</u>	<u>\$550,857,382</u>	<u>\$548,870,417</u>	<u>0.46%</u>
Total earning assets and net interest margin	<u>\$631,203,440</u>	<u>\$616,093,546</u>	<u>3.62%</u>	<u>\$580,244,656</u>	<u>\$582,226,175</u>	<u>3.87%</u>



**FOR IMMEDIATE RELEASE**

**CONTACTS:**

October 23, 2017

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## **CAB Financial Corporation Announces Completion of the Reorganization of Carolina Alliance Bank into a Bank Holding Company**

SPARTANBURG, S.C. October 23, 2017 – CAB Financial Corporation (the “Corporation”) and Carolina Alliance Bank (OTCQX: CRLN) (the “Bank”) announced that, effective today, they have consummated their corporate reorganization whereby the Corporation, a South Carolina corporation created by the Bank’s Board of Directors for this specific purpose, became the Bank’s holding company. The Bank received the approval for the reorganization from the Bank’s shareholders at its annual meeting held on May 15, 2017 and was recently notified by the Federal Reserve Bank of Richmond that it did not object to the reorganization.

Effective today, the Corporation’s shares are being quoted upon the OTCQX Market under the symbol of “CABF”. Shares of the Bank’s common stock will be exchanged for shares of Corporation’s common stock at a one-for-one exchange rate. Investors who own shares of the Bank in certificate or book entry form will receive information in the mail regarding any steps necessary to complete the exchange of shares.

The Bank will continue to operate as Carolina Alliance Bank, and be managed by its current Board of Directors and executive officers. The Bank will continue to engage in the same business in which it presently is engaged and will continue its operations out of its current locations.

Carolina Alliance Bank is a community bank with seven locations in upstate South Carolina, western North Carolina, and Charlotte, North Carolina. Its primary emphasis is on consumer, private/professional, and small to mid-sized business banking. For additional information about Carolina Alliance please visit [www.CarolinaAllianceBank.com](http://www.CarolinaAllianceBank.com).

Note:

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