Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, R. Lamar Simpson
Name of the Holding Company Director and Official

Chief Financial Officer
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

8/21/2018
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2017
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

CAB Financial Corporation
Legal Title of Holding Company

200 South Church Street
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Spartanburg	SC	29306

200 South Church Street
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
R. Lamar Simpson	Chief Financial Officer

864-542-2428
Area Code / Phone Number / Extension

864-208-2530
Area Code / FAX Number

lsimpson@carolinaalliancebank.com
E-mail Address

WWW.CAROLINAALLIANCEBANK.COM
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Form FR Y-6

CAB Financial Corporation

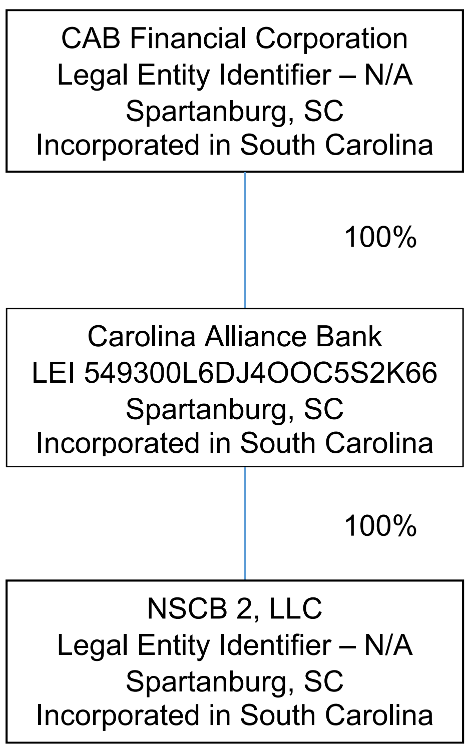
Spartanburg, South Carolina

Fiscal Year Ending December 31, 2017

Report Item

1: The annual report to the shareholders of the bank holding company for the year ended December 31, 2017 is attached. The holding company is not registered with the SEC.

2a: Organizational Chart



2b: See attached branch listing.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*
OK		Full Service (Head Office)	3486623	CAROLINA ALLIANCE BANK	200 S. CHURCH STREET	SPARTANBURG	SC	29306	SPARTANBURG	UNITED STATES	Not Required	Not Required	CAROLINA ALLIANCE BANK	3486623
OK		Full Service	3637229	ASHEVILLE BRANCH	1127 HENDERSONVILLE ROAD	ASHEVILLE	NC	28803	BUNCOMBE	UNITED STATES	Not Required	Not Required	CAROLINA ALLIANCE BANK	3486623
OK		Full Service	4357702	HENDERSONVILLE BRANCH	218 NORTH MAIN STREET	HENDERSONVILLE	NC	28792	HENDERSON	UNITED STATES	Not Required	Not Required	CAROLINA ALLIANCE BANK	3486623
OK		Full Service	4902988	ANDERSON BRANCH	115 BROADBENT WAY	ANDERSON	SC	29625	ANDERSON	UNITED STATES	Not Required	Not Required	CAROLINA ALLIANCE BANK	3486623
OK		Full Service	3675641	ANDERSON ROAD BRANCH	10515 ANDERSON ROAD	EASLEY	SC	29642	ANDERSON	UNITED STATES	Not Required	Not Required	CAROLINA ALLIANCE BANK	3486623
OK		Full Service	4899958	EASLEY BRANCH	6501 CALHOUN MEMORIAL HIGHWAY	EASLEY	SC	29640	PICKENS	UNITED STATES	Not Required	Not Required	CAROLINA ALLIANCE BANK	3486623
OK		Full Service	3384868	GREENVILLE BRANCH	937 N PLEASANTBURG DRIVE	GREENVILLE	SC	29607	GREENVILLE	UNITED STATES	Not Required	Not Required	CAROLINA ALLIANCE BANK	3486623

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CAB Financial Corporation

Fiscal Year Ending December 31, 2017

Report Item 3: Securities holders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2017			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2017		
(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
RMB CAPITAL MGMT ROCKVILLE MD	USA	Common: 377,054 shares 5.2% of outstanding	N/A		

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CAB Financial Corporation
Year Ended December 31, 2017

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include Names of subsidiaries)	3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage Of Voting Shares in Holding Company	(4)(b) Percentage Of Voting Shares in Subsidiaries (include Names of subsidiaries)	(4)(c) List names of other companies (includes Partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Terry L. Cash Chesnee, SC 29323	Business Owner	Chairman	Carolina Alliance Bank: Chairman		1.3%	None	Caman Group, Inc – 100%; Caman Development, LLC – 100%; and Caman Holdings, LLC – 50%
T. Alexander Evins Spartanburg, SC	Attorney	Director	Carolina Alliance Bank: Director		0.9%	None	NRA Investments, LLC – 33.3%
Marsha H. Gibbs Spartanburg SC	Business Owner	Director	Carolina Alliance Bank: Director		0.3%	None	None
Samuel H. Maw, Jr. Spartanburg, SC	Retired	Director	N/A		0.9%	None	None
D. Byrd Miller III Spartanburg, SC	Financial Executive	Director	Carolina Alliance Bank: Director		0.4%	None	William Barnet & Son, LLC – 27%
W. Lewis White, Sr. Spartanburg, SC	Real Estate Firm Owner	Director	Carolina Alliance Bank: Director		0.4%	None	W. Lewis White Company, Inc. – 100%
L. Terrell Sovey Spartanburg, SC	Retired	Director	Carolina Alliance Bank: Director		1.6%	None	LTS Enterprises, LLC – 100%; Management Advisory Services, Inc.- 100%; Hwy 176 Investors, LLC – 50%; S. Pine Street Properties, LLC – 50%; Palmetto Arms, LLC – 100%; Sovey Properties, LLC – 100% Poplar Street Partners – 50%
Susan H. McClinton Asheville, NC	Business Owner	Director	N/A		0.2%	None	None
George M. Groome Asheville, NC	Business Owner	Director	Carolina Alliance Bank: Director		0.2%	None	Groome Holdings, LLC – 33.3%; Groome Family Enterprises, LLC – 40%; Tar Heel Holdings, LLC – 50%; Groome Succession, LLC – 33.3%

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CAB Financial Corporation

Year Ended December 31, 2017

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	(3)(b) Title & Position with Subsidiaries (include Names of subsidiaries)	(3)(c) Tit le & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage Of Voting Shares in Holding Company	(4)(b) Percentage Of Voting Shares in Subsidiaries (include Names of subsidiaries)	(4)(c) List names of other companies (includes Partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
W. Louis Bissette, Jr. Asheville, NC	Attorney	Director, Vice Chairman	Carolina Alliance Bank: Director, Vice Chairman		0.2%	None	L&T of Walnut Cove, LLC – 50%; Haw Creek Duplex, LLC – 100%
Carl R. Bartlett Black Mountain, NC	Retired	Director	Carolina Alliance Bank: Director		0.1%	None	None
W. Allen Rogers II Pawleys Island, SC	Investment Banker	Director	Carolina Alliance Bank: Director		0.1%	None	None
Marshall E. Franklin Greenville, SC	Financial Executive	Director	Carolina Alliance Bank: Director		0.1%	None	None
Richard H. Sumerel Greenville, SC	Real Estate Executive	Director	Carolina Alliance Bank: Director		0.1%	None	None
Larry A. Webb Piedmont, SC	Real Estate Firm Owner	Director	Carolina Alliance Bank: Director		0.1%	None	Webb Development, LLC – 100%;
John S. Poole Spartanburg, SC	Retired	Director	NSCB2, LLC: General Manager		0.7%	None	None
John D. Kimberly Asheville, NC	N/A	Director, President and Chief Executive Officer	Carolina Alliance Bank: Director President and Chief Executive Officer		0.2%	None	None
R. Lamar Simpson Greenville, SC	N/A	Director, Chief Financial Officer and Secretary	Carolina Alliance Bank: Director, Chief Financial Officer, Chief Operating Officer, and Secretary		0.9%	None	None

CAB FINANCIAL CORPORATION

Consolidated Financial Statements

and

Independent Auditor's Report

As of and for the Years Ended
December 31, 2017 and 2016

CAB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

As of and for the Years Ended December 31, 2017 and 2016

Index

Independent Auditor's Report

Board of Directors
CAB Financial Corporation
Spartanburg, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CAB Financial Corporation and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of CAB Financial Corporation and its subsidiary as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Greenville, South Carolina
March 27, 2018

CAB FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2017 and 2016

	2017	2016
Assets:		
Cash and due from banks	**$ 17,899,745**	$ 13,100,026
Federal funds sold and interest bearing bank balances	**956,266**	3,642,070
Total cash and cash equivalents	**18,856,011**	16,742,096
Bank term deposits	**509,000**	2,252,000
Investment securities, available for sale	**103,309,869**	97,976,406
Other investments	**1,337,500**	1,461,600
Loans held for sale	**170,444**	2,093,952
Loans and finance leases, net	**521,184,433**	488,136,402
Property and equipment, net	**8,275,061**	8,777,157
Leased assets, net	**4,435,192**	5,104,187
Bank-owned life insurance	**17,272,897**	11,358,608
Goodwill	**4,057,337**	4,057,337
Core deposit intangible	**1,062,863**	1,404,266
Other assets	**4,790,944**	3,568,978
Total assets	**$ 685,261,551**	$ 642,932,989
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits	**$ 566,988,758**	$ 527,599,212
Securities sold under agreements to repurchase	**15,589,977**	16,711,164
Advances from FHLB of Atlanta	**15,500,000**	21,500,000
Federal funds purchased	**4,780,000**	3,180,000
Other liabilities	**4,334,396**	3,647,169
Total liabilities	**607,193,131**	572,637,545
Commitments and contingencies (Notes 11 and 12)		
Shareholders' Equity:		
Preferred stock, $1.00 par value, 10,000,000 shares authorized; no shares issued	**-**	-
Common stock, $1.00 par value, 20,000,000 shares authorized; 7,201,211 and 6,534,833 issued and outstanding at December 31, 2017 and 2016, respectively	**7,201,211**	6,534,833
Additional paid-in capital	**65,553,769**	59,055,109
Unearned restricted stock	**(114,829)**	-
Retained earnings	**6,132,482**	5,569,583
Accumulated other comprehensive loss	**(704,213)**	(864,081)
Total shareholders' equity	**78,068,420**	70,295,444
Total liabilities and shareholders' equity	**$ 685,261,551**	$ 642,932,989

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

CAB FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Income

For the Years Ended December 31, 2017 and 2016

	2017	2016
Interest Income:		
Interest and fees on loans and finance leases	**$ 23,046,574**	$ 22,688,552
Investment securities	**2,239,403**	2,056,200
Federal funds sold and interest bearing bank deposits	**119,408**	55,118
Total interest income	**25,405,385**	24,799,870
Interest Expense:		
Deposits	**2,606,384**	2,318,710
Other	**423,811**	229,210
Total interest expense	**3,030,195**	2,547,920
Net Interest Income	**22,375,190**	22,251,950
Provision for Loan and Lease Losses	**378,000**	210,000
Net Interest Income After Provision for Loan and Lease Losses	**21,997,190**	22,041,950
Non-Interest Income:		
Operating lease income	**2,310,726**	2,209,723
Service fees on deposit accounts	**865,065**	750,486
Mortgage brokerage income	**718,913**	1,114,943
Other income	**1,222,005**	793,482
Net gain on sale of securities available for sale	**2,606**	79,346
Net loss on other real estate owned and repossessed assets	**(78,165)**	(124,274)
Total non-interest income	**5,041,150**	4,823,706
Non-Interest Expense:		
Salaries and benefits	**11,718,398**	11,413,587
Occupancy, furniture, and equipment	**2,060,346**	2,001,045
Operating lease expense	**2,055,787**	1,948,623
Data processing and computer network	**2,263,810**	2,048,716
Marketing	**329,165**	324,906
Printing, supplies, and postage	**201,041**	207,483
Core deposit intangible amortization	**341,403**	394,557
Other operating	**2,619,351**	2,385,282
Total non-interest expense	**21,589,301**	20,724,199
Income Before Income Taxes	**5,449,039**	6,141,457
Income Tax Expense	**763,331**	1,987,384
Net Income	**4,685,708**	4,154,073
Dividends on Preferred Shares	**-**	7,085
Redemption of Preferred Shares	**-**	25,000
Net Income Available to Common Shareholders	**$ 4,685,708**	$ 4,121,988
Basic Income per Common Share	**$ 0.66**	$ 0.60
Diluted Income per Common Share	**$ 0.65**	$ 0.59
Weighted Average Common Shares Outstanding:		
Basic	**7,128,583**	6,868,104
Diluted	**7,245,473**	6,942,880

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

CAB FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2017 and 2016

	2017		2016	
Net Income		**$ 4,685,708**		$ 4,154,073
Other Comprehensive Income (Loss):				
Unrealized gain (losses) on investment securities available for sale, pretax	**$ 439,076**		$ (1,374,423)	
Income tax effect	**(161,147)**	**277,929**	504,261	(870,162)
Reclassification of gain on sale of investment securities included in net income, pretax	**(2,606)**		(79,346)	
Income tax effect	**956**	**(1,650)**	29,120	(50,226)
Total other comprehensive income (loss)		**276,279**		(920,388)
Comprehensive Income		**$ 4,961,987**		$ 3,233,685

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

CAB FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2017 and 2016

	Preferred Stock		Common Stock		Additional Paid-in Capital	Unearned Restricted Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
December 31, 2015	5,000	$ 5,000	6,517,436	$6,517,436	$63,850,220	$ -	$1,447,595	$ 56,307	$71,876,558
Stock-based compensation	-	-	-	-	30,396	-	-	-	30,396
Common stock issued for:									
Directors' compensation	-	-	11,473	11,473	98,559	-	-	-	110,032
Advisory directors' compensation	-	-	2,816	2,816	24,149	-	-	-	26,965
Exercise of stock options	-	-	3,108	3,108	21,785	-	-	-	24,893
Redemption of preferred stock	(5,000)	(5,000)	-	-	(4,970,000)	-	(25,000)	-	(5,000,000)
Preferred stock dividends	-	-	-	-	-	-	(7,085)	-	(7,085)
Net income	-	-	-	-	-	-	4,154,073	-	4,154,073
Other comprehensive loss	-	-	-	-	-	-	-	(920,388)	(920,388)
December 31, 2016	**-**	**-**	**6,534,833**	**6,534,833**	**59,055,109**	**-**	**5,569,583**	**(864,081)**	**70,295,444**
Stock-based compensation	**-**	**-**	**-**	**-**	**18,026**	**5,771**	**-**	**-**	**23,797**
Common stock issued for:									
Restricted stock	**-**	**-**	**10,000**	**10,000**	**110,600**	**(120,600)**	**-**	**-**	**-**
Directors' compensation	**-**	**-**	**11,145**	**11,145**	**124,411**	**-**	**-**	**-**	**135,556**
Advisory directors' compensation	**-**	**-**	**458**	**458**	**5,120**	**-**	**-**	**-**	**5,578**
Exercise of stock options	**-**	**-**	**302,235**	**302,235**	**2,345,598**	**-**	**-**	**-**	**2,647,833**
5% common stock dividend issued September 19, 2017	**-**	**-**	**342,540**	**342,540**	**3,894,905**	**-**	**(4,237,445)**	**-**	**-**
Cash paid in lieu of fractional shares in connection with common stock dividend	**-**	**-**	**-**	**-**	**-**	**-**	**(1,775)**	**-**	**(1,775)**
Reclassification of accumulated other comprehensive income due to statutory tax changes	**-**	**-**	**-**	**-**	**-**	**-**	**116,411**	**(116,411)**	**-**
Net income	**-**	**-**	**-**	**-**	**-**	**-**	**4,685,708**	**-**	**4,685,708**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**276,279**	**276,279**
December 31, 2017	**-**	**$ -**	**7,201,211**	**$7,201,211**	**$65,553,769**	**$ (114,829)**	**$6,132,482**	**$ (704,213)**	**$78,068,420**

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

CAB FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities:		
Net income	**$ 4,685,708**	$ 4,154,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	**378,000**	210,000
Accretion on acquired loans and deposits, net	**(476,963)**	(474,128)
Depreciation	**2,839,905**	2,674,519
Stock compensation	**23,797**	30,396
Deferred income tax expense	**222,704**	2,122,906
Amortization of premiums on investment securities, net	**683,268**	621,865
Gain on sale of investment securities available for sale	**(2,606)**	(79,346)
Income on bank-owned life insurance	**(414,289)**	(213,145)
Net losses on other real estate owned	**78,165**	124,274
Net decrease (increase) in loans held for sale	**1,923,508**	(1,461,124)
(Increase) decrease in other assets	**(1,221,965)**	519,785
Increase (decrease) in other liabilities	**304,331**	(1,196,196)
Net cash provided by operating activities	**9,023,563**	7,033,879
Investing Activities:		
Increase in loans and finance leases, net	**(32,812,379)**	(18,411,133)
Purchase of investments:		
Investment securities available for sale	**(23,495,247)**	(33,300,588)
Bank term deposits	**-**	(249,000)
Bank-owned life insurance	**(5,500,000)**	(7,500,000)
Other investments	**(1,767,200)**	(446,300)
Purchase of property and equipment	**(282,022)**	(877,455)
Purchase of leased assets	**(1,386,792)**	(2,609,881)
Proceeds from investment transactions:		
Principal payments on investment securities available for sale	**11,790,673**	13,203,551
Maturities and calls of investment securities available for sale	**2,440,962**	5,410,000
Sales of investment securities available for sale	**3,685,957**	5,189,973
Maturity of bank term deposits	**1,743,000**	1,479,995
Redemption of other investments	**1,891,300**	715,600
Net cash used in merger	**-**	(13,868)
Proceeds from sale of other real estate owned	**126,549**	-
Net cash used for investing activities	**(43,565,199)**	(37,409,106)
Financing Activities:		
Net increase in deposits	**39,389,546**	31,757,448
Issuance of common stock and cash in lieu	**2,787,192**	161,890
Redemption of preferred stock	**-**	(5,000,000)
Dividends paid on preferred stock	**-**	(7,085)
Borrowings from FHLB of Atlanta	**48,000,000**	15,500,000
Repayment of borrowings from FHLB of Atlanta	**(54,000,000)**	(22,600,000)
Federal funds purchased	**1,600,000**	3,180,000
Net (decrease) increase in securities sold under agreements to repurchase	**(1,121,187)**	9,063,076
Net cash provided by financing activities	**36,655,551**	32,055,329
Net Increase in Cash and Cash Equivalents	**2,113,915**	1,680,102
Cash and Cash Equivalents, Beginning of Period	**16,742,096**	15,061,994
Cash and Cash Equivalents, End of Period	**$ 18,856,011**	$ 16,742,096

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

CAB FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows (*Continued*)

For the Years Ended December 31, 2017 and 2016

	2017	2016
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	**$ 2,992,354**	$ 2,532,294
Income taxes refunded (paid)	**$ 785,977**	$ (296,898)
Non-cash transactions:		
Unrealized gain (losses) on investment securities	**$ 439,076**	$ (1,374,423)
Deferred income tax effect on unrealized securities losses	**$ 161,147**	$ 504,261
Reclassification of gain on sale of investment securities included in net income	**$ (2,606)**	$ (79,346)
Deferred income tax effect on securities gains reclassified	**$ 956**	$ 29,120
Non-cash measurement period adjustments to assets acquired and liabilities assumed in PBSC merger:		
Loans	**$ -**	$ 441,538
Goodwill	**$ -**	$ (266,223)
Other assets	**$ -**	$ (173,680)
Other liabilities	**$ -**	$ (1,635)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Carolina Alliance Bank (the "Bank") was incorporated and began operations in January 2007 and provides a broad array of commercial banking services to its customers. The Bank is subject to regulation of the South Carolina State Board of Financial Institutions and the Federal Deposit Insurance Corporation.

On March 20, 2017, CAB Financial Corporation, a South Carolina corporation, was organized to serve as the holding company for the Bank (the "Holding Company"). On the same date, the Bank and the Holding Company approved the Reorganization Agreement and Plan of Share Exchange (the "Reorganization Plan") which was subsequently approved by the Bank's shareholders at the annual meeting of shareholders on May 15, 2017. On October 23, 2017, the effective date of the Reorganization (the "Effective Date"), each outstanding share of common stock of the Bank was exchanged, in a tax-free transaction, for one share of common stock of the Holding Company. Subsequent to the Reorganization, the Bank has continued to conduct its business in substantially the same manner as the Bank did before the Reorganization. The Holding Company is subject to regulation of the Federal Reserve Bank.

Basis of Presentation - The consolidated financial statements include the accounts of the Holding Company, the Bank, and the Bank's wholly-owned subsidiary, NSCB 2, LLC (whose only business activity is the holding of title to certain operating real estate) (collectively, the "Company"). Significant intercompany balances and transactions have been eliminated. The accounting policies and reporting practices conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices in the banking industry.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses; fair values of financial instruments, assets and liabilities acquired in business combinations, and real estate acquired in settlement of loans; the evaluation of impairment of investment securities and goodwill; and the valuation of deferred tax assets and other intangible assets.

Nature of Operations and Concentrations of Credit Risk - The Company is engaged in the business of accepting demand and time deposits and providing loans to individuals and businesses. The Company's business is limited primarily to the upstate region of South Carolina and western North Carolina. The Company has a diversified loan portfolio, and the borrowers' ability to repay their loans is not dependent upon any specific economic sector.

Disclosure Regarding Segments - The Company reports as one operating segment, as the chief operating decision-maker reviews the results of operations of the Company as a single enterprise.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business Combinations and Method of Accounting for Loans Acquired **-** Acquisitions are accounted for under the acquisition method of accounting. A business combination occurs when the Company acquires net assets that constitute a business, or acquires equity interests in one or more other entities that are businesses and obtains control over those entities. Business combinations are effected through the transfer of consideration consisting of cash and/or common stock.

The assets and liabilities of the acquired entity are recorded at their respective fair values as of the acquisition date. When the fair value of the assets purchased exceeds the fair value of liabilities assumed, it results in a “bargain purchase gain.” When the consideration given exceeds the fair value of the net assets received, goodwill is recognized.

Determining the fair value of assets and liabilities, especially the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the acquisition date, as relevant information becomes available. The results of operations of acquired entities are included in the Company’s consolidated results from the acquisition date, and prior periods are not restated. No allowance for loan and lease losses related to the acquired loans is recorded on the acquisition date because the fair value of the loans acquired incorporates assumptions regarding future credit losses. The fair value estimates associated with the acquired loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Subsequent Events **-** Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 27, 2018, the date the financial statements were issued, and determined that no subsequent events have occurred requiring accrual or disclosure.

Cash and Cash Equivalents **-** For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, short-term interest bearing deposits and federal funds sold. Cash and cash equivalents have an original maturity of three months or less. Bank term deposits, consisting of FDIC-insured certificates of deposits with original maturities in excess of three months, are not included in cash and cash equivalents.

Investment Securities **-** Investments in debt and equity securities are required to be classified into one of three categories: “trading,” “held to maturity,” or “available for sale.” During the reporting periods, the Company held no trading or held to maturity securities. Available for sale securities are debt and equity securities which are not classified as either trading or held to maturity securities. These securities are reported at fair market value. Net unrealized gains and losses are reported as a separate component of shareholders’ equity.

Gains or losses on dispositions of investment securities are determined on a trade date basis and are based on the difference between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Premiums and discounts are amortized or accreted into interest income by a method that approximates a level yield.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company periodically evaluates its investment securities portfolio for "other-than-temporary impairment." If a security is considered to be other-than-temporarily impaired, the related unrealized loss is charged to income, and a new cost basis is established. Factors considered include the reasons for the impairment; the severity and duration of the impairment; changes in value subsequent to period-end; and forecasted performance of the security issuer. Impairment is considered other-than-temporary unless the Company has both the intent and ability to hold the security for a sufficient period of time to allow the fair market value to recover, and evidence supporting the recovery outweighs evidence to the contrary.

Other Investments - Other investments consists of stock in the Federal Home Loan Bank of Atlanta ("FHLB") which the Company is required to own as a member institution. Transfer of the stock is restricted, no ready market exists, and it has no quoted market value. However, redemption of the stock historically has been at par value; therefore, it is stated at the Company's cost basis.

Loans Held For Sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. The majority of loans held for sale are initially funded by the Company with a commitment to purchase by an independent investor. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in non-interest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in non-interest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party commitments.

Mortgage origination income represents fees and net premiums and discounts paid by the investors and is recognized at the sale date.

Loans, Interest, and Fee Income on Loans and Leases - Loans and finance leases are stated at the principal balance outstanding and are reduced by the allowance for loan and lease losses. Loan and lease origination fees and certain direct loan origination costs are deferred and the net amount is accreted or amortized as an adjustment of the related yield over the contractual life of the loan or lease. Loan and lease origination fees and costs are netted and the net amount either reduces or increases net loans and leases outstanding. Interest income is recognized over the term of the loan or lease based on the contractual interest rate and the principal balance outstanding.

Loans generally are placed on non-accrual status when principal or interest becomes 90 days past due, or when payment in full is not anticipated. Interest payments received after a loan is placed in non-accrual status are applied as principal reductions until such time as the loan is returned to accrual status. Generally, a loan is returned to accrual status when the loan is brought current and the collectability of principal and interest is no longer in doubt.

Purchased Credit-Impaired ("PCI") Loans - Loans acquired in a business combination are recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan and lease losses. PCI loans are accounted for under the "Receivables" topic of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") when the loans have evidence of credit deterioration since origination, and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference, and is available to absorb credit losses on those loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent significant increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification for the non-accretable difference with a positive impact on future interest income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Further, an excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

Purchased Performing Loans - The Company accounts for performing loans acquired in business combinations using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount and a rate discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan and lease losses established at the acquisition date for purchased performing loans. A provision for loan and lease losses is recorded as the fair value discount is accreted over time and for any further deterioration in these loans subsequent to the acquisition.

Allowance for Loan and Lease Losses - The Company provides for loan and lease losses using the allowance method. Provisions for loan and lease losses are added to the allowance through charges to operating expenses. Loans and leases which are determined to be uncollectible are charged against the allowance and recoveries on loans and leases previously charged off are added to the allowance. The provision for loan and lease losses charged to operations is an amount sufficient to bring the allowance to an estimated balance considered adequate to absorb losses inherent in the portfolio.

Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, historical loan and lease loss experience, and other risk factors. While management uses the best information available to make evaluations, future adjustments may be necessary if economic and other conditions differ substantially from the assumptions used. The allowance for loan and lease losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

A loan is considered to be impaired when full payment according to the terms of the loan agreement is not probable or when the terms of a loan are modified in a troubled debt restructuring ("TDR"). The fair value of impaired loans may be determined based upon the present value of expected cash flows discounted at the loan's effective interest rate, the market price of the loan, if available, or, if the loan is collateral-dependent, the estimated fair value of the underlying collateral, less estimated selling costs.

The treatment of the loan impairment is based on the status of the borrower and the underlying collateral. In general, the amount by which the loan principal outstanding exceeds the fair value of the loan is charged-off for consumer loans and collateral-dependent loans, whereas for all other loans, a portion of the allowance for loan and lease losses is allocated specifically to cover this shortfall. When the ultimate collectability of an impaired loan's principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once payments equal to the outstanding principal balance have been received, further cash receipts are applied to interest income, to the extent that any interest has been foregone.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Building and fixtures have estimated useful lives of 10 to 40 years and furniture and equipment have estimated useful lives of 3 to 15 years. Maintenance and repairs are charged to operations, while major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and the gain or loss is included in income from operations.

Leased Assets - The Company has purchased construction, office, and athletic equipment that it leases to customers under operating lease agreements with varying terms. The value of the leased asset is recorded at cost and depreciated on the straight-line basis over the estimated useful life (3 to 5 years), after the date the equipment is put in service, and depreciated down to its estimated residual value. The Company periodically reviews the residual values of leased assets for impairment using various factors, including the practices and benchmarks of the larger competitors in the particular industry.

Costs incurred on leased equipment subsequent to initial acquisition are capitalized when it is probable that future economic benefits in excess of the originally assessed performance will result; otherwise, they are expensed as incurred.

Other Real Estate Owned and Repossessed Assets - Other real estate owned is comprised of real property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Repossessed assets include personal property acquired through conveyance in satisfaction of debts. Other real estate owned and repossessed assets are recorded at the lower of the recorded investment in the loan at the time of acquisition or the estimated fair value of the underlying property collateral, less selling costs. Any write-down in the carrying value of a property at the time of repossession is charged to the allowance for loan and lease losses. Any subsequent write-downs to reflect current fair market value, as well as gains and losses on disposition and revenues and expenses incurred in maintaining such properties, are treated as period costs. Other real estate owned and repossessed assets are included in “Other assets” in the balance sheet and balances are summarized in Note 3.

Goodwill and Other Intangible Assets - Intangible assets consist of goodwill and core deposit intangibles, which resulted from the mergers with Forest Commercial Bank (“Forest Commercial”) and PBSC Financial Corporation and PBSC’s wholly-owned subsidiary, Pinnacle Bank of South Carolina (collectively, “Pinnacle”). Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business combinations. Goodwill has an indefinite useful life and is evaluated for impairment annually, or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset’s fair value.

An initial qualitative evaluation is made to assess the likelihood of impairment and to determine whether further quantitative testing to calculate the fair value is necessary. When the qualitative evaluation indicates that impairment is more likely than not, quantitative testing is required whereby the fair value of each reporting unit is calculated and compared to the recorded book value. If the calculated fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired and no further testing is considered necessary. If the carrying value of a reporting unit exceeds its calculated fair value, the impairment test continues by comparing the carrying value of the reporting unit’s goodwill to the implied fair value of goodwill. The implied fair value is computed by adjusting all assets and liabilities of the reporting unit to current fair value with the offset adjustment to goodwill.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Core deposit intangibles represent the value of long-term deposit relationships acquired in a business combination. The core deposit intangibles are being amortized over seven years using the 150% declining balance method. This amortization method is used to match the recognition of the cost of the asset to the estimated lives of the underlying deposit relationships. These estimated useful lives are periodically reviewed for reasonableness.

Bank-Owned Life Insurance - The Company owns life insurance policies on certain current and past officers where the insurance policy benefits and ownership are retained by the employer. These policies are recorded at their cash surrender value. Income from these policies and changes in the net cash surrender value are recorded in non-interest income. The cash value accumulation is permanently tax deferred if the policy is held to the insured person's death and certain other conditions are met.

Derivative Instruments - Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as part of a hedging relationship, the gain or loss is recognized in current earnings.

Beginning in 2015, the Company entered into interest-rate swap contracts in connection with its commercial lending activities. These swaps allow qualified commercial banking customers to convert a floating-rate loan payment to fixed-rate loan payment while the Company simultaneously enters into an equal and opposite interest rate swap with an independent counterparty. These swap transactions do not meet hedge accounting requirements and therefore changes in the fair value of both the customer swaps and the counterparty swaps, which have an offsetting inverse relationship, are recognized directly in earnings.

See Note 10 *DERIVATIVE INSTRUMENTS* for more information about the Company's derivatives.

Advertising - Advertising, promotional, and other business development costs generally are expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising costs incurred for the years ended December 31, 2017 and 2016 totaled $115,440 and $140,746, respectively.

Stock-Based Compensation - Compensation cost is recognized for stock-based awards issued to employees and directors. Compensation cost is measured as the fair value of these awards on the date of grant. The fair value of each award is expensed over its vesting period. Further information about the Company's stock award plans and the methodologies used to determine the fair value of awards is detailed in Note 15.

Income Taxes - The asset and liability approach is utilized to account for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying values and the tax bases of assets and liabilities, as well as net operating loss carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. A current tax asset or liability is recognized for taxes that are presently receivable or payable and is included in "Other assets" or "Other liabilities" in the balance sheet.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has analyzed its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company believes that income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain income tax positions have been recorded.

Earnings Per Share - Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares consist solely of dilutive stock options determined by the treasury stock method using the average market price of the shares during the period. Earnings per share amounts for the year ended December 31, 2016 have been adjusted to reflect the five percent stock dividend issued in September 2017.

Sales of Loans - Gains and losses on the sales of loans are accounted for as the difference between the proceeds received and the carrying value of the loans. Such gains or losses are recognized in the financial statements at the time of the sale.

Comprehensive Income - Comprehensive income consists of net income and net unrealized gains and losses on investment securities available for sale, net of related tax effects, and is presented in the Consolidated Statements of Changes in Shareholders' Equity and in the separate Consolidated Statements of Comprehensive Income.

Stock Dividend - On August 22, 2017 the board of directors declared a five percent stock dividend of the Company's common shares, distributed on September 19, 2017. All references to share and per share amounts in the statements of operations and accompanying notes to the financial statements have been retroactively adjusted to reflect the five percent stock dividend.

Fair Value Measurements - Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Fair values are determined under a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs in the measurement process. There are three levels of inputs that may be used to measure fair value:

Level 1: These inputs principally consist of quoted prices in active markets for identical assets or liabilities. (The Company has no assets or liabilities measured by the use of Level 1 inputs.)

Level 2: Observable inputs such as quoted prices for similar assets or liabilities or other inputs that are observable or can be corroborated by observable market data are the primary types of measurements that comprise Level 2.

Level 3: Unobservable inputs that are supported by little or no market activity or that may involve using pricing models, discounted cash flow methodologies, or similar techniques are included in this level. The determination of values also may require significant management judgment or estimation.

<u>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</u>

Reclassifications - Certain amounts previously reported have been reclassified to conform to the current presentation of these consolidated financial statements. These reclassifications had no effect on previously reported net income or shareholders' equity.

Recently Issued Accounting Standards - Since May 2014, the FASB has issued a series of standards which change the existing principles of revenue recognition from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Company's revenue is comprised of net interest income, which the guidance explicitly excludes from its scope, and noninterest income. While certain components of non-interest income are subject to this guidance, the Company's overall assessment indicates that adoption of these new requirements will not materially change its current methods of revenue recognition. The Company's future disclosures about revenues in its periodic financial statements will change, however. The guidance became effective for the Company on January 1, 2018 with no material changes to Company's financial condition and results of operations.

In February 2016, the FASB issued a new accounting standard which changes the accounting principles for leases. For lessees, the new standard is based on a right-of-use (ROU) concept that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement for the lessee. For lessors, the new standard requires leases to be classified as either sales-type, finance, or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor doesn't convey risks and rewards or control, an operating lease results.

For lessees, a modified retrospective transition approach is required for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The practical expedients allow existing leases to be largely accounted for in a manner consistent with current guidance except for the incremental balance sheet recognition. For lessors, a modified retrospective transition approach is required for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

While the Company is currently evaluating the timing and impact of adopting the new leasing standard, the ultimate impact will depend on the nature and terms of leases in effect as of the adoption date and interest rates at that time. The Company does expect to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments, which will be based on the present value of committed lease payments as of the date of adoption. See NOTE 11 - *COMMITMENTS AND CONTINGENCIES* for a schedule of current minimum lease commitments.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The requirements were effective for the Company on January 1, 2017 and their adoption did not have a material effect on the Company's financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the credit impairment model for certain debt securities. The new standard will require credit losses on most financial assets to be measured at amortized cost and certain other instruments (e.g. loans receivable) to be measured using an expected credit loss model (commonly referred to as the current expected credit loss model, or "CECL"). Under this model, entities generally will estimate credit losses over the entire contractual term of the instrument (with adjustments for prepayments under certain circumstances). The amendments will be effective for the Company for reporting periods beginning after December 15, 2020 and for interim periods within fiscal years beginning after December 15, 2021. The Company will reflect the financial impact of the new standard through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The potential impact of the new requirements on the consolidated financial statements is being evaluated. The primary impact will be an adjustment to the allowance for loan losses, but it may be necessary to record an allowance for credit losses on debt securities. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts prevailing at that time.

In January 2017, the FASB issued guidance to simplify the accounting for goodwill impairment. The amendment removes "Step 2" of the existing goodwill impairment test. Under the new guidance, the amount of an impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the new requirements to have a material effect on its financial statements.

In February 2018, the FASB issued a new standard which allows the effect of stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act") to be reclassified from accumulated other comprehensive income (loss) to retained earnings. The Company elected to early-adopt this pronouncement by retrospective application to each period in which the effect of the change in the tax rate under the Tax Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings is included in the Consolidated Statements of Changes in Shareholders' Equity.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have material impact on the Company's financial position, results of operations or cash flows.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2017 and 2016 are as follows:

	2017			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government agency and sponsored enterprises	**$ 10,612,364**	**$ 45,697**	**$ (182,813)**	**$ 10,475,248**
Agency mortgage-backed securities	**36,511,422**	**105,912**	**(435,607)**	**36,181,727**
Agency collateralized mortgage obligations	**23,239,813**	**7,286**	**(375,418)**	**22,871,681**
Corporate securities	**1,002,773**	**8,106**	**-**	**1,010,879**
Municipal securities	**32,872,094**	**225,972**	**(327,732)**	**32,770,334**
Total available for sale	**$104,238,466**	**$ 392,973**	**$ (1,321,570)**	**$103,309,869**

	2016			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government agency and sponsored enterprises	$ 12,727,758	$ 60,024	$ (223,884)	$ 12,563,898
Agency mortgage-backed securities	35,776,785	162,175	(413,986)	35,524,974
Agency collateralized mortgage obligations	20,703,528	42,857	(273,817)	20,472,568
Municipal securities	30,133,402	66,390	(784,826)	29,414,966
Total available for sale	$ 99,341,473	$ 331,446	$ (1,696,513)	$ 97,976,406

In the year ended December 31, 2017, there were 20 sales of investment securities available for sale at a gain; there were 12 sales at a loss. The gross proceeds of $3,685,957 and net gain are reflected in the Consolidated Statements of Cash Flows. In the year ended December 31, 2016, there were 12 sales of investment securities available for sale at a gain; there was one sale at a loss. The gross proceeds of $5,189,973 and net gain are reflected in the Consolidated Statements of Cash Flows.

NOTE 2 - INVESTMENT SECURITIES (Continued)

For investment securities which had been in an unrealized loss position for less than 12 months, the number of securities, the fair value, and the gross unrealized losses for each investment security category at December 31, 2017 and 2016 are as follows:

	2017			2016		
	#	**Fair Value**	**Unrealized Losses**	**#**	**Fair Value**	**Unrealized Losses**
U.S. government agency and sponsored enterprises	**-**	**$ -**	**$ -**	21	$ 8,818,043	$ (203,433)
Agency mortgage-backed securities	**15**	**11,748,136**	**(102,510)**	38	25,573,495	(397,540)
Agency collateralized mortgage obligations	**16**	**11,053,228**	**(101,874)**	24	15,939,400	(263,684)
Municipal securities	**11**	**6,905,854**	**(57,242)**	43	23,586,739	(784,826)
Total temporarily impaired securities	**42**	**$29,707,218**	**$ (261,626)**	126	$73,917,677	$(1,649,483)

There were 84 investment securities which had been in an unrealized loss position for greater than 12 months at December 31, 2017 and seven at December 31, 2016. The number of securities, the fair value, and the gross unrealized losses for each investment security category at December 31, 2017 and 2016 are as follows:

	2017			2016		
	#	**Fair Value**	**Unrealized Losses**	**#**	**Fair Value**	**Unrealized Losses**
U.S. government agency and sponsored enterprises	**21**	**$ 8,179,247**	**$ (182,813)**	1	$ 522,735	$ (20,451)
Agency mortgage-backed securities	**27**	**17,165,218**	**(333,097)**	5	1,000,882	(16,446)
Agency collateralized mortgage obligations	**19**	**10,471,230**	**(273,544)**	1	306,494	(10,133)
Municipal securities	**17**	**8,993,543**	**(270,490)**	-	-	-
Total temporarily impaired securities	**84**	**$44,809,238**	**$(1,059,944)**	7	$ 1,830,111	$ (47,030)

Based on its other-than-temporary impairment analysis at December 31, 2017, management concluded that the unrealized losses reflected in the preceding summaries were not other-than-temporary as of that date. Management believes the decline in value to be solely the result of changes in interest rates and not from deterioration in the securities' quality. The Company has the intention and ability to hold these securities for a period of time sufficient to allow for their recovery in value or maturity.

NOTE 2 - INVESTMENT SECURITIES (Continued)

Investment securities at December 31, 2017 and 2016 were pledged as collateral for the following purposes (at fair value):

	2017	2016
Customer repurchase agreements	**$ 15,628,989**	$ 17,111,893
Public entity deposits	**14,693,424**	9,438,648
Total	**$ 30,322,413**	$ 26,550,541

Amortized cost and fair value of securities available for sale at December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities and collateralized mortgage obligations are shown separately since they are not due at a single maturity date.

	Amortized Cost	Fair Value
Due within one year or less	**$ 573,621**	**$ 574,723**
Due after one through five years	**6,968,260**	**6,876,865**
Due after five through ten years	**13,380,177**	**13,475,132**
Due after ten years	**23,565,173**	**23,329,741**
No contractual maturity	**59,751,235**	**59,053,408**
Total investment securities	**$ 104,238,466**	**$ 103,309,869**

NOTE 3 - LOANS AND FINANCE LEASES

Loans and finance leases receivable at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Commercial	**$ 73,690,472**	$ 70,894,304
Real estate:		
Commercial	**340,467,962**	313,084,968
Residential	**65,107,040**	66,755,796
Construction	**17,226,018**	15,872,706
Consumer	**4,849,627**	5,730,997
Gross loans	**501,341,119**	472,338,771
Finance leases	**28,928,288**	25,312,796
Gross loans and finance leases	**530,269,407**	497,651,567
Allowance for loan and lease losses	**(5,305,456)**	(4,954,610)
Fair value adjustments on acquired loans and leases	**(1,298,445)**	(2,545,043)
Deferred fees and costs, net	**(2,481,073)**	(2,015,512)
Net loans and finance leases	**$ 521,184,433**	$ 488,136,402

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

At December 31, 2017, substantially all of the Company's commercial real estate loans and home equity lines of credit were pledged as collateral for advances from the FHLB under the borrowing facility described in Note 8.

A summary of changes in the allowance for loan and lease losses is as follows for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	**$ 4,954,610**	$ 4,678,907
Provision for loan and lease losses	**378,000**	210,000
Loans and leases charged off	**(53,826)**	-
Loan recoveries	**26,672**	65,703
Balance, end of year	**$ 5,305,456**	$ 4,954,610

The Company makes loans to individuals and small- to mid-sized businesses for various personal and commercial purposes primarily in the upstate region of South Carolina and western North Carolina. Credit concentrations can exist in relation to individual or groups of borrowers, industry segments, geographic regions, and collateral characteristics. Credit risk associated with these concentrations could arise when a significant amount of loans sharing similar characteristics are simultaneously impacted by economic or other conditions which adversely affect their collectability. The Company regularly monitors its credit concentrations. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. The largest component of the loan portfolio is loans secured by real estate mortgages which were comprised of the following at December 31, 2017 (construction loans have been allocated to commercial and residential categories as appropriate):

	Amount	**% of Real Estate Loans**
Commercial real estate :		
Owner-occupied	**$ 139,709,979**	**33.0%**
Other	**208,243,586**	**49.3%**
Total commercial real estate	**347,953,565**	**82.3%**
Residential real estate	**74,847,455**	**17.7%**
Total real estate loans	**$ 422,801,020**	**100.0%**
% of gross loans	**84.3%**	

In addition to monitoring potential concentrations described above, management monitors exposure to credit risk that could arise from potential concentrations of lending products and practices, such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. At December 31, 2017, approximately $11.4 million, or 2.2% of gross loans, were identified as having high loan-to-value ratios. The largest component comprising these loans was commercial real estate loans of approximately $7.3 million which was below the aggregate supervisory loan-to-value limit of 30% of capital for this type of loan by approximately $16.2 million.

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

The remainder of the balance of high loan-to-value loans, $4.1 million, was also well below supervisory limits. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Management has determined that there is no concentration of credit risk associated with its lending policies or practices.

Credit quality of individual residential loans and consumer loans is monitored principally through review of delinquency measures and non-accrual levels on a portfolio-level basis. The Company uses an internal loan grading system to classify and monitor the credit quality of all commercial loans. Loan risk grades are based on a graduated scale representing increasing likelihood of loss. The originating loan officers are responsible for the assignment of risk grades to commercial loans, subject to verification by an approving officer or the Management Loan Committee. In addition, the Credit Policy Officer is responsible for confirming loan grades and, along with the Management Loan Committee, has final authority over loan grading. Loan gradings also are reviewed on a regular basis by an independent third-party loan review firm. Individual loan officers also are responsible for ensuring that loan grades are updated as needed over the life of the loan. Loan grade descriptions and a summary of the grading of the Company's loan portfolio by segment are as follows:

Grade 1 - Loans in this category are virtually risk-free and are well-collateralized by cash-equivalent instruments. The repayment program is well-defined and achievable. Repayment sources are numerous. No material documentation deficiencies or exceptions exist.

Grade 2 - This grade is reserved for loans secured by readily marketable collateral, or loans within guidelines to borrowers with liquid financial statements. A liquid financial statement is a financial statement with substantial liquid assets relative to debts. These loans have excellent sources of repayment, with no significant identifiable risk of collection, and conform in all respects to Company policy, guidelines, underwriting standards, and Federal and State regulations (no exceptions of any kind).

Grade 3 - This grade is reserved for the Company's top quality loans. These loans have excellent sources of repayment, with no significant identifiable risk of collection. Generally, loans assigned this risk grade will demonstrate the following characteristics:

- No exceptions of any kind.
- Documented historical cash flow that meets or exceeds required minimum Company guidelines, or that can be supplemented with verifiable cash flow from other sources.
- Adequate secondary sources to liquidate the debt.

Grade 4 - This grade is given to acceptable loans. These loans have adequate sources of repayment, with little identifiable risk of collection. Loans assigned this risk grade will demonstrate the following characteristics:

- Limited exceptions - any exceptions that are identified during the underwriting and approval process have been adequately mitigated by other factors.
- Documented historical cash flow that meets or exceeds required minimum Company guidelines, or that can be supplemented with verifiable cash flow from other sources.
- Adequate secondary sources to liquidate the debt.

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

Grade 5 - This grade is given to acceptable loans that show signs of weakness in either adequate sources of repayment or collateral, but have demonstrated mitigating factors that minimize the risk of delinquency or loss. Loans assigned this grade may demonstrate some or all of the following characteristics:

- Additional exceptions to the Company's policy requirements, product guidelines, or underwriting standards that present a higher degree of risk to the Company. Although the combination and/or severity of identified exceptions is greater, all exceptions have been properly mitigated by other factors.
- Unproven, insufficient, or marginal primary sources of repayment that appear sufficient to service the debt at this time.
- Marginal or unproven secondary sources to liquidate the debt.

Grade 6 - This grade is given to Watch List or **Special Mention** loans which include the following characteristics:

- Loans with underwriting guideline tolerances and/or exceptions and with no mitigating factors.
- Extending loans that are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Company's position at some future date.
- Loans where adverse economic conditions that develop subsequent to the loan origination that don't jeopardize liquidation of the debt but do substantially increase the level of risk may also warrant this rating.

Grade 7 - A **Substandard** loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Loans consistently not meeting the repayment schedule should be downgraded to substandard. Loans in this category are characterized by deterioration in quality exhibited by any number of well-defined weaknesses requiring corrective action. Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status or extensions and/or renewals.

Grade 8 - Loans classified **Doubtful** have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Grade 9 - Loans classified **Loss** are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be effected in the future.

Not Graded - Primarily consists of individual residential or consumer loans not assigned a risk grade, in accordance with the Company's credit policy. Also, not graded may be commercial loans for which a grade is pending because the loan is under review.

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

The composition of the loan portfolio by segment and grade at December 31, 2017 is as follows:

		Real Estate				
	Commercial	**Commercial**	**Residential**	**Construction**	**Consumer**	**Total**
Grade 1	**$ 1,968,988**	**$ -**	**$ -**	**$ -**	**$ 53,171**	**$ 2,022,159**
Grade 2	**750,511**	**1,980,775**	**-**	**-**	**-**	**2,731,286**
Grade 3	**10,688,073**	**84,038,765**	**7,946,259**	**1,234,764**	**226,699**	**104,134,560**
Grade 4	**46,129,833**	**189,349,051**	**228,850**	**9,913,831**	**4,468**	**245,626,033**
Grade 5	**13,747,726**	**55,316,341**	**153,229**	**814,200**	**1,075**	**70,032,571**
Grade 6	**373,265**	**648,909**	**838,463**	**-**	**-**	**1,860,637**
Grade 7	**29,145**	**6,824,855**	**236,314**	**-**	**931**	**7,091,245**
Grade 8	**-**	**795,626**	**-**	**-**	**-**	**795,626**
Not graded	**2,931**	**1,513,640**	**55,703,925**	**5,263,223**	**4,563,283**	**67,047,002**
Gross loans	**$73,690,472**	**$340,467,962**	**$65,107,040**	**$ 17,226,018**	**$ 4,849,627**	**$501,341,119**

The composition of the loan portfolio by segment and grade at December 31, 2016 is as follows:

		Real Estate				
	Commercial	**Commercial**	**Residential**	**Construction**	**Consumer**	**Total**
Grade 1	$ 2,206,092	$ -	$ -	$ -	$ 67,935	$ 2,274,027
Grade 2	535,680	2,324,797	-	-	-	2,860,477
Grade 3	15,230,803	94,748,175	10,180,525	1,514,733	584,404	122,258,640
Grade 4	41,652,704	154,825,089	204,538	8,501,988	-	205,184,319
Grade 5	10,052,125	46,707,823	159,043	342,500	2,874	57,264,365
Grade 6	81,102	1,965,861	1,015,761	-	-	3,062,724
Grade 7	98,821	9,859,780	425,470	-	972	10,385,043
Grade 8	446,785	1,507,780	-	-	-	1,954,565
Not graded	590,192	1,145,663	54,770,459	5,513,485	5,074,812	67,094,611
Gross loans	$70,894,304	$313,084,968	$66,755,796	$ 15,872,706	$ 5,730,997	$472,338,771

The composition of non-performing assets at December 31, 2017 and 2016 is as follows:

	2017	**2016**
Non-accrual loans:		
Commercial	**$ 2,141**	$ 94,900
Real estate - commercial	**2,859,958**	1,842,379
Total non-accrual loans	**2,862,099**	1,937,279
Other real estate owned	**-**	127,595
Non-performing assets	**$ 2,862,099**	$ 2,064,874
Loans past due 90 days or more still accruing interest	**$ -**	$ -

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

The composition of past due loans by portfolio segment at December 31, 2017 is as follows:

	Days Past Due			**Total**		
	30-59	**60-89**	**90 or More[1]**	**Past Due**	**Current**	**Total Loans**
Commercial	**$ 429**	**$ -**	**$ 2,141**	**$ 2,570**	**$ 73,687,902**	**$ 73,690,472**
Real estate:						
Commercial	**-**	**-**	**2,859,958**	**2,859,958**	**337,608,004**	**340,467,962**
Residential	**-**	**-**	**-**	**-**	**65,107,040**	**65,107,040**
Construction	**-**	**-**	**-**	**-**	**17,226,018**	**17,226,018**
Consumer	**1,447**	**-**	**-**	**1,447**	**4,848,180**	**4,849,627**
Gross loans	**$ 1,876**	**$ -**	**$ 2,862,099**	**$ 2,863,975**	**$498,477,144**	**$501,341,119**

The composition of past due loans by portfolio segment at December 31, 2016 is as follows:

	Days Past Due			**Total**		
	30-59	**60-89**	**90 or More[1]**	**Past Due**	**Current**	**Total Loans**
Commercial	$ -	$ -	$ 94,900	$ 94,900	$ 70,799,404	$ 70,894,304
Real estate:						
Commercial	-	2,693,110	1,842,379	4,535,489	308,549,479	313,084,968
Residential	257	-	-	257	66,755,539	66,755,796
Construction	-	-	-	-	15,872,706	15,872,706
Consumer	-	-	-	-	5,730,997	5,730,997
Gross loans	$ 257	$ 2,693,110	$ 1,937,279	$ 4,630,646	$467,708,125	$472,338,771

[1] All loans past due 90 or more days are in non-accrual status.

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

The Company acquired certain loans in the merger with Pinnacle which had experienced credit deterioration since origination (PCI loans). Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity.

The changes in accretable yield during the years ended December 31, 2017 and 2016 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are presented in the table below.

	2017	**2016**
Balance, beginning of year	**$ 17,473**	$ 92,441
Additions	**-**	-
Accretion	**(6,310)**	(75,844)
Other changes, net	**(11,163)**	876
Balance, end of year	**$ -**	$ 17,473

The carrying amounts of acquired PCI loans included in the consolidated balance sheet and the related outstanding balances at December 31, 2017 and 2016, were as follows:

	2017	**2016**
Outstanding balance	**$ 1,851,356**	$ 4,234,566
Carrying amount	**1,358,156**	3,317,018

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

The following tables summarize information relative to impaired loans by portfolio segment.

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Commercial	$ 2,141	$ 2,141	$ -	$ 5,085	$ -
Real estate:					
Commercial	1,911,463	2,409,451	-	2,683,833	67,375
Residential	-	-	-	-	-
Construction	-	-	-	-	-
Consumer	931	931	-	964	173
	1,914,535	2,412,523	-	2,689,882	67,548
With a related allowance:					
Commercial	36,884	36,884	1,661	40,270	2,484
Real estate:					
Commercial	2,604,316	2,604,316	222,660	3,466,070	65,956
Residential	236,314	236,314	119,849	242,140	10,537
Construction	-	-	-	-	-
Consumer	1,075	1,075	708	2,014	242
	2,878,589	2,878,589	344,878	3,750,494	79,219
Total impaired loans:					
Commercial	39,025	39,025	1,661	45,355	2,484
Real estate:					
Commercial	4,515,779	5,013,767	222,660	6,149,903	133,331
Residential	236,314	236,314	119,849	242,140	10,537
Construction	-	-	-	-	-
Consumer	2,006	2,006	708	2,978	415
	$ 4,793,124	$ 5,291,112	$ 344,878	$ 6,440,376	$ 146,767
Troubled debt restructurings included in impaired loans:					
Accruing	$ 3,120,401	$ 3,120,374	$ 299,509	$ 3,181,368	$ 146,594
Non-accrual	930,414	1,428,402	5,898	1,701,897	-
	$ 4,050,815	$ 4,548,776	$ 305,407	$ 4,883,265	$ 146,594

Not included in the impaired loan table above are $1,851,356 of purchased credit-impaired loans with discounts of $409,615 and $83,585 for credit and yield, respectively, for a reported net book value of $1,358,156.

At December 31, 2017, the outstanding recorded investment in loans which had been determined in prior years to be impaired under ASC 310-10-35 was $4,139,534, and there was $243,994 in related allowance for loan and lease losses associated with those loans.

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

	December 31, 2016				
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance:					
Commercial	$ 1,973	$ 1,973	$ -	$ 2,813	$ 223
Real estate:					
Commercial	743,143	1,241,131	-	1,448,794	58,252
Residential	179,244	179,244	-	177,262	8,106
Construction	-	-	-	-	-
Consumer	972	972	-	938	169
	925,332	1,423,320	-	1,629,807	66,750
With a related allowance:					
Commercial	47,798	47,798	630	52,536	3,189
Real estate:					
Commercial	3,472,895	3,472,895	229,619	3,520,077	170,560
Residential	246,226	246,226	114,414	252,683	10,800
Construction	-	-	-	-	-
Consumer	2,874	2,874	411	4,452	536
	3,769,793	3,769,793	345,074	3,829,748	185,085
Total impaired loans:					
Commercial	49,771	49,771	630	55,349	3,412
Real estate:					
Commercial	4,216,038	4,714,026	229,619	4,968,871	228,812
Residential	425,470	425,470	114,414	429,945	18,906
Construction	-	-	-	-	-
Consumer	3,846	3,846	411	5,390	705
	$ 4,695,125	$ 5,193,113	$ 345,074	$ 5,459,555	$ 251,835
Troubled debt restructurings included in impaired loans:					
Accruing	$ 3,444,772	$ 3,444,772	$ 303,659	$ 3,494,840	$ 168,060
Non-accrual	487,692	985,680	-	1,186,634	-
	$ 3,932,464	$ 4,430,452	$ 303,659	$ 4,681,474	$ 168,060

Not included in the impaired loan table above are $4,234,566 of purchased credit-impaired loans with discounts of $819,021 and $98,527 for credit and yield, respectively, for a reported net book value of $3,317,018.

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

Following is a summary of loans determined to be TDRs during the years ended December 31, 2017 and 2016:

	2017			**2016**		
	Number	**Amount**		**Number**	**Amount**	
	of Loans	**Pre-Modification**	**Post-Modification**	**of Loans**	**Pre-Modification**	**Post-Modification**
Commercial	**-**	**$ -**	**$ -**	1	$ 11,293	$ 11,293
Real estate:						
Commercial	**-**	**-**	**-**	2	559,265	559,265
Residential	**1**	**578,353**	**578,353**	-	-	-
Construction	**-**	**-**	**-**	-	-	-
Consumer	**-**	**-**	**-**	-	-	-
	1	**$ 578,353**	**$ 578,353**	3	$ 570,558	$ 570,558

The loan that was identified as TDR during the year ended December 31, 2017 defaulted on a loan at another financial institution while it was restructuring its loan with the Company. During the years ended December 31, 2017 and 2016, there were no loans that had been previously restructured removed from this classification (except by pay-offs).

The following table summarizes activity related to the allowance for loan and lease losses by portfolio segment and finance leases for the year ended December 31, 2017:

	Balance Beginning of Year	**Provision for Losses**	**Loan Charge Offs**	**Loan Recoveries**	**Balance End of Year**
Commercial	**$ 665,130**	**$ 23,298**	**$ -**	**$ 16,084**	**$ 704,512**
Real estate:					
Commercial	**3,164,199**	**305,803**	**-**	**-**	**3,470,002**
Residential	**740,124**	**(9,480)**	**-**	**10,188**	**740,832**
Construction	**149,188**	**52,639**	**37,527**	**-**	**164,300**
Consumer	**53,717**	**(5,297)**	**1,857**	**400**	**46,963**
Finance leases	**182,252**	**11,037**	**14,442**	**-**	**178,847**
Total	**$4,954,610**	**$ 378,000**	**$ 53,826**	**$ 26,672**	**$5,305,456**

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

The following table summarizes activity related to the allowance for loan and lease losses for the year ended December 31, 2016 by portfolio segment:

	Balance Beginning of Year	Provision for Losses	Loan Charge Offs	Loan Recoveries	Balance End of Year
Commercial	$ 660,265	$ (33,866)	$ -	$ 38,731	$ 665,130
Real estate:					
Commercial	2,929,603	211,338	-	23,258	3,164,199
Residential	687,427	48,983	-	3,714	740,124
Construction	142,217	6,971	-	-	149,188
Consumer	44,259	9,458	-	-	53,717
Finance Leases	215,136	(32,884)	-	-	182,252
Total	$4,678,907	$ 210,000	$ -	$ 65,703	$4,954,610

The following tables present the basis upon which loans in each portfolio segment and finance leases were reviewed for impairment, with the related allowance for loan and lease losses broken out on the same basis, at December 31, 2017 and 2016:

	2017					
	Gross Loan and Leases			**Allowance for Loan and Lease Losses**		
	Basis of Review			**Basis of Review**		
	Individual	**Collective**	**Total**	**Individual**	**Collective**	**Total**
Commercial	**$ 39,025**	**$ 73,651,447**	**$ 73,690,472**	**$ 1,661**	**$ 702,851**	**$ 704,512**
Real estate:						
Commercial	**4,515,779**	**335,952,183**	**340,467,962**	**222,660**	**3,247,342**	**3,470,002**
Residential	**236,314**	**64,870,726**	**65,107,040**	**119,849**	**620,983**	**740,832**
Construction	**-**	**17,226,018**	**17,226,018**	**-**	**164,300**	**164,300**
Consumer	**2,006**	**4,847,621**	**4,849,627**	**708**	**46,255**	**46,963**
Finance leases	**-**	**28,928,288**	**28,928,288**	**-**	**178,847**	**178,847**
Total	**$4,793,124**	**$525,476,283**	**$530,269,407**	**$ 344,878**	**$4,960,578**	**$5,305,456**

Included in the “Collective” and “Total” columns of the impaired loan table above are $1,851,356 of purchased credit-impaired loans with discounts of $409,615 and $83,585 for credit and yield, respectively, for a reported net book value of $1,358,156.

NOTE 3 - LOANS AND FINANCE LEASES (Continued)

	2016					
	Gross Loans			Allowance for Loan Losses		
	Basis of Review			Basis of Review		
	Individual	Collective	Total	Individual	Collective	Total
Commercial	$ 49,771	$ 70,844,533	$ 70,894,304	$ 630	$ 664,500	$ 665,130
Real estate:						
Commercial	4,216,038	308,868,930	313,084,968	229,619	2,934,580	3,164,199
Residential	425,470	66,330,326	66,755,796	114,414	625,710	740,124
Construction	-	15,872,706	15,872,706	-	149,188	149,188
Consumer	3,846	5,727,151	5,730,997	411	53,306	53,717
Finance leases	-	25,312,796	25,312,796	-	182,252	182,252
Total	$4,695,125	$492,956,442	$497,651,567	$ 345,074	$4,609,536	$4,954,610

Included in the “Collective” and “Total” columns of the impaired loan table above are $4,234,566 of purchased credit-impaired loans with discounts of $819,021 and $98,527 for credit and yield, respectively, for a reported net book value of $3,275,884.

Performing loans and finance leases totaling approximately $112.3 million and $130.0 million were acquired during 2015 and 2014, respectively. These loans and finance leases totaled approximately $69.0 million and $101.3 million, with related fair value adjustments of approximately $0.8 and$1.6 million at December 31, 2017 and 2016, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Land	**$ 1,559,924**	$ 1,559,924
Building	**6,203,295**	6,194,929
Furniture and equipment	**3,858,574**	3,610,447
Leasehold improvements	**506,373**	480,845
	12,128,166	11,846,145
Less accumulated depreciation	**3,853,105**	3,068,988
Property and equipment, net	**$ 8,275,061**	$ 8,777,157

Depreciation expense for the years ended December 31, 2017 and 2016 was $784,117 and $733,535, respectively. During the year ended December 31, 2016, fully depreciated computer equipment and fully amortized leasehold improvements and software with total original book value of $757,319 were retired. During the year ended December 31, 2017, no fixed assets were retired.

NOTE 5 - LEASED ASSETS

Leased assets at December 31, 2017 and 2016 are summarized as follows:

	2017	**2016**
Equipment	**$ 8,156,195**	$ 8,651,118
Less accumulated depreciation	**3,721,003**	3,546,931
Leased assets, net	**$ 4,435,192**	$ 5,104,187

Depreciation expense on leased assets for the years ended December 31, 2017 and 2016 was $2,055,788 and $1,940,984, respectively. The estimated residual at the end of the lease term is $1,367,688 at December 31, 2017. Minimum future lease receipts under these leases are as follows at December 31, 2017:

2018	**$ 1,608,554**
2019	**994,604**
2020	**525,329**
2021	**326,896**
2022	**40,939**
Total	**$ 3,496,322**

NOTE 6 - CORE DEPOSIT INTANGIBLE ASSETS

At December 31, 2017, core deposit intangible assets, net of accumulated amortization, amounted to $1,062,863. The amount of core deposit premium recorded as a result of the merger with Pinnacle was $1,112,937, and the amount of core deposit premium recorded as a result of the merger with Forest Commercial was $1,125,940. The core deposit intangible assets are amortized over the estimated life of the assets. Amortization expense related to the core deposit premiums was $341,403 and $394,557 for the years ended December 31, 2017 and 2016, respectively. Amortization of the core deposit intangible asset is computed using the 150% declining balance method over an amortization period of seven years. Estimated future amortization expense is as follows at December 31, 2017:

2018	**$ 319,840**
2019	**319,840**
2020	**252,331**
2021	**132,144**
2022	**38,708**
Total	**$ 1,062,863**

NOTE 7 - DEPOSITS

Deposit accounts at December 31, 2017 and 2016 are summarized as follows:

	2017	**2016**
Non-interest bearing deposits	**$ 118,393,233**	$ 101,185,722
Interest bearing deposits:		
Interest checking	**80,766,648**	68,309,702
Money market	**144,080,091**	139,160,239
Savings	**84,123,839**	74,715,527
Time deposits	**139,624,947**	144,228,022
Total deposits	**$ 566,988,758**	$ 527,599,212

At December 31, 2017 and 2016 there were deposits amounting to approximately $42.9 million and $43.9 million, respectively, obtained from outside the Company's market area through the internet and deposit brokers. At December 31, 2017 and 2016, time deposits greater than $250,000 totaled $41,376,517 and $40,328,313 respectively. Overdraft deposits reclassified to loans were $6,584 and $1,438,106 at December 31, 2017 and 2016, respectively.

At December 31, 2017 the scheduled maturities of time deposits were as follows:

2018	**$ 87,102,661**
2019	**28,645,501**
2020	**9,822,122**
2021	**12,744,651**
2022	**1,310,012**
Total time deposits	**$ 139,624,947**

NOTE 8 - OTHER BORROWINGS

Repurchase Agreements **-** All of the Company's repurchase agreements are with its commercial deposit customers. At December 31, 2017 and 2016, respectively, balances of $15,589,977 and $16,711,164 were outstanding at rates of 0.30% to 0.80% for December 31, 2017 and 0.30% to 0.65% for December 31, 2016.

Federal Funds Purchased **-** The Company maintains federal funds lines of credit with correspondent banks to meet short-term liquidity needs. Advances under these agreements are unsecured and are limited to terms ranging from 7 to 15 days. These banks have reserved the right to withdraw these lines at their option. At December 31, 2017, the Company had credit availability of $53.0 million under these lines with $4.8 million outstanding.

FHLB Line of Credit **-** The Company has an approved credit line with the FHLB of approximately $171.5 million, subject to the Company's ability to pledge qualifying collateral. Advances totaled $15.5 million and $21.5 million at December 31, 2017 and 2016, respectively. The advances are at fixed rates with interest paid monthly and principal paid at maturity.

NOTE 8 - OTHER BORROWINGS (Continued)

The following table summarizes the FHLB borrowings at December 31, 2017:

Maturity Date	Balance	Interest Rate
May 23, 2018	**$ 1,500,000**	**1.490%**
October 18, 2018	**3,000,000**	**0.990%**
December 6, 2018	**3,000,000**	**1.380%**
June 21, 2019	**4,000,000**	**1.530%**
June 29, 2020	**4,000,000**	**1.693%**
	$15,500,000	

***Federal Reserve Bank Credit Facility* -** The Company is eligible to borrow through the Federal Reserve Bank's ("FRB") "Discount Window" program. Any borrowings under this program must be secured by eligible collateral and are limited to very short terms, typically overnight. The FRB has indicated that though institutions are not required to seek funding elsewhere before requesting credit, they expect that institutions will use the Discount Window as a backup rather than a regular source of funding. The Company maintains it as a part of its contingency funding plan. The Company estimates that credit availability under this program was approximately $121.7 million at December 31, 2017.

NOTE 9 - INCOME TAXES

Income tax expense for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Current income tax (benefit) expense	**$ 540,627**	$ (135,522)
Net deferred income tax expense (benefit)	**222,704**	2,122,906
Income tax expense	**$ 763,331**	$ 1,987,384

The income tax expense for the years ended December 31, 2017 and 2016 is reconciled to the amount of income tax computed at the federal statutory rate of 34% on income before income taxes as follows:

	2017	2016
Tax expense at statutory rate	**$ 1,852,673**	$ 2,088,095
Increase (decrease) in taxes resulting from:		
State income taxes, net of federal benefit	**120,898**	118,193
Stock option compensation	**(150,547)**	10,477
Tax-exempt interest income	**(199,168)**	(159,252)
Change in federal tax rate	**(686,120)**	-
Income on bank-owned life insurance	**(140,858)**	(72,469)
Other, net	**(33,547)**	2,340
Income tax expense	**$ 763,331**	$ 1,987,384

The tax benefit from the change in federal tax rate for the year ended December 31, 2017 shown in the table above is related to the reduction in the U.S. federal statutory income rate under the Tax Act, which was enacted on December 22, 2017 and effective January 1, 2018.

NOTE 9 - INCOME TAXES (Continued)

The tax benefit recognized for the rate change is the result of the remeasurement of the Company's deferred tax assets and liabilities at the new federal tax rate of 21% which were measured at the federal tax rate of 34% prior to enactment of the Tax Act.

The income tax effects of temporary differences between financial statement carrying values and the tax bases of assets and liabilities at December 31, 2017 and 2016 are as follows:

	2017	**2016**
Deferred tax assets:		
Allowance for loan and lease losses	**$ 973,054**	$ 1,373,617
Unrealized losses on securities available for sale	**224,384**	500,987
Acquisition accounting adjustments	**90,494**	408,020
Organization and start-up costs	**166,585**	309,184
Non-qualified stock options	**166,065**	335,759
Deferred compensation	**41,535**	40,038
Other	**230,404**	438,693
Total deferred tax assets	**1,892,521**	3,406,298
Deferred tax liabilities:		
Leased assets	**2,314,793**	3,092,470
Property and equipment	**328,803**	610,823
Loan origination costs	**107,360**	149,705
Other	**23,100**	51,939
Total deferred tax liabilities	**2,774,056**	3,904,937
Net deferred tax liability	**$ (881,535)**	$ (498,639)

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. At December 31, 2017, management determined that there no deferred tax assets individually or in the aggregate of a significance that would require a valuation allowance.

Changes in deferred taxes on unrealized gains and losses on securities are recorded directly to shareholders' equity. However, changes in deferred taxes on unrealized gains and losses on securities which are attributable to changes in enacted tax rates require the deferred taxes to be adjusted through income tax expense. The portion of the deferred tax expense on unrealized losses on securities related to the tax rate change in 2017 amounted to $116,411 and it is included in the overall net tax benefit from the tax rate change of $686,120.

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. The Company's federal and state income tax returns are open and subject to examination from the 2014 tax return year and forward.

NOTE 10 - DERIVATIVE INSTRUMENTS

The Company had no derivative contracts to assist in managing its own interest-rate sensitivity. Following is a summary of interest-rate swap contracts with commercial banking customers to convert floating-rate loan payments to fixed-rate loan payments and the equal and opposite interest rate swap contracts with an independent counterparty:

		Estimated Fair Value		Gains (Losses)
	Notional Amount	**Other Assets**	**Other Liabilities**	**Non-interest Income**
December 31, 2017:				
Pay fixed/receive variable	**$33,071,691**	**$ 942,830**	**$ -**	**$ 231,052**
Pay variable/receive fixed	**33,071,691**	**-**	**942,830**	**(231,052)**
Total interest rate agreements	**$66,143,382**	**$ 942,830**	**$ 942,830**	**$ -**

		Estimated Fair Value		Gains (Losses)
	Notional Amount	**Other Assets**	**Other Liabilities**	**Non-interest Income**
December 31, 2016:				
Pay fixed/receive variable	$23,349,670	$ 711,778	$ -	$ 575,351
Pay variable/receive fixed	23,349,670	-	711,778	(575,351)
Total interest rate agreements	$46,699,340	$ 711,778	$ 711,778	$ -

All changes in fair value are measured on a monthly basis. The net interest differential is recognized as an adjustment to interest income. In the event of early termination, the net proceeds received or paid on the interest rate swap agreements are recognized immediately in non-interest income and the future net interest differential, if any, is recognized prospectively in interest income.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company leases several office facilities and various equipment under operating leases. The office leases typically require that the Company pay taxes, insurance, and maintenance on the facilities. Lease expense for the years ended December 31, 2017 and 2016 was $688,425 and $684,720, respectively. The amount expensed for related party rents was $270,077 for the years ended December 31, 2017 and 2016.

In April 2016, the Company entered into a three-year lease for additional administrative office space in Spartanburg. The lease may be renewed for two successive three-year terms. In connection with the moving of certain personnel from the Company’s main office to this new leased office, the Spartanburg leasing department moved from its leased office in February 2017 and the lease expired on February 28, 2017.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

The Asheville office lease commenced on August 1, 2010, includes a ten-year term and a renewal option to extend the term of the lease for two separate and successive five-year periods. The lease is in an agreement with a board member (related party) of the Company. The Hendersonville office lease commenced on October 1, 2011, includes a five-year term and a renewal option to extend the term of the lease for one separate and successive five-year period. The Charlotte office lease commenced on January 1, 2015 for a four-year term.

In addition, the Company is in its final one-year renewal option period for its Anderson branch, which will expire December 31, 2018.

As part of the merger with Pinnacle, the Company acquired leases for the Greenville and Easley branches. The Greenville lease had an original term of five years and was amended and extended during 2009 for a ten-year term. The Easley lease commenced in January 2015, has a ten-year term, and includes a renewal option to extend the term of the lease for two separate and successive five-year periods.

Minimum future rentals under these leases are as follows:

2018	**$ 700,033**
2019	**642,065**
2020	**507,325**
2021	**99,920**
2022	**73,886**
2023 and beyond	**153,361**
Total	**$ 2,176,590**

The Company has a contract for data processing services with a remaining term of 54 months at December 31, 2017 which had an average monthly payment of approximately $113,000 in the year ended December 31, 2017.

The Company has entered into employment agreements with certain senior officers. These agreements include provisions regarding term, compensation, benefits, incentive programs, stock option plans, severance, and non-compete provisions. The agreements have terms ranging from two to three years and annually are extended automatically for successive one-year terms, provided that the Company or officer may at any time give notice that the term is to be fixed at the term remaining at the last extension. The agreements also may be terminated if the officer’s employment is terminated under various provisions of the agreements.

Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Company.

NOTE 12 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the ordinary course of business, and to meet the financing needs of its customers, the Company is a party to various financial instruments with off-balance sheet risk. These financial instruments, which include commitments to extend credit and standby letters of credit, involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The same credit policies used for on-balance sheet instruments are used in making commitments and conditional obligations.

The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2017, the Company's commitments to extend additional credit totaled approximately $144.6 million, the majority of which are at variable rates of interest with varying maturities. Included in the Company's total commitments are standby letters of credit. Letters of credit are commitments issued by the Company to guarantee the performance of a customer to a third party and totaled approximately $2.9 million at December 31, 2017.

The derivative financial instruments discussed in Note 10 expose the Company to credit risk. Credit risk is the risk of failure by the counterparty to perform under the terms of a derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by a highly-rated counterparty that management believes to be creditworthy. As the swaps are subject to master netting agreements, the Company had limited exposure relating to interest rate swaps with its institutional counterparty at December 31, 2017.

NOTE 13 - PREFERRED STOCK

On February 23, 2016, with regulatory approval, the Company redeemed all of the 5,000 shares of its Series A preferred stock. The Company had issued the preferred shares in 2011 to the Secretary of the Treasury under the Small Business Lending Fund ("SBLF"). Under the terms of the stock purchase agreement, the Treasury received 5,000 shares of $1.00 par value, non-cumulative perpetual preferred stock with a liquidation value of $1,000 per share in exchange for $5 million. The Series A preferred stock qualified as Tier 1 capital.

The aggregate redemption price of the Series A preferred stock was approximately $5.0 million, including accrued but unpaid dividends. The preferred stock was redeemed from the Company's existing funds. Following the redemption, the Company does not have any shares of its Series A preferred stock outstanding. As a result, the redemption terminated the Company's participation in the SBLF program.

NOTE 14 - DIVIDENDS

During the years ended December 31, 2017 and 2016 the Company's board of directors approved stock dividends that were issued to the Company's shareholders as follows:

Date Declared	Dividend Amount	Date Distributed
August 22, 2017	5%	September 19, 2017
January 11, 2016	5%	February 10, 2016

Average shares outstanding were retroactively adjusted to reflect the stock dividends. Prior year average share amounts and earnings per share have been adjusted in the Consolidated Statements of Income and in certain other share and per share disclosures.

Currently, the Company has no plans to initiate payment of cash dividends on its common shares. The ability of the Company to pay cash dividends is dependent upon receiving cash in the form of dividends from the Bank. The dividends that may be paid by the Bank to the Company are subject to legal limitations and regulatory requirements. Any future payment of cash dividends on the Company's common stock will be subject to certain other legal and regulatory limitations, including that the Company's capital be maintained at certain minimum levels, and will be subject to ongoing review by banking regulators.

NOTE 15 - STOCK COMPENSATION

Reorganization - Under the terms of the Reorganization Plan, the Corporation adopted all stock options and all benefit plans of the Bank at the Effective Date.

Stock Dividend - All share and per share amounts in this note have been adjusted for the 5% stock dividends in 2017 and 2016.

Equity Incentive Plan - On February 23, 2017 the Bank's Board of Directors approved the adoption of the Carolina Alliance Bank 2017 Equity Incentive Plan (the "Equity Plan"), which was approved by the Bank's shareholders at the annual meeting of shareholders on May 15, 2017. The Equity Plan is a compensation plan that provides the Company the ability to grant several forms of equity, including stock options, restricted stock, restricted stock units, and stock with no restrictions, to its officers, employees, directors, advisors (including members of an advisory board), and consultants to reward performance, attract highly qualified personnel, and provide incentives to such individuals to increase shareholder value. The Equity Plan permits the Company to issue up to 600,000 shares in any combination of the various equity awards allowed.

At December 31, 2017, 10,250 shares of restricted stock had been issued to employees under the Equity Plan. These restricted shares are subject to five-year straight-line vesting; during this period, the holder is entitled to full voting rights and dividends. None of the shares were vested at December 31, 2017.

The weighted average grant-date fair value was $11.77 and at December 31, 2017 there was $115,000 of total unrecognized compensation cost related to the non-vested shares. Compensation cost of approximately $6,000 was recognized in the year ended December 31, 2017. The remaining cost is expected to be recognized over a weighted-average period of 4.8 years.

NOTE 15 - STOCK COMPENSATION (Continued)

Stock Option Plans - The Company has three stock option plans (the "Plans") for the benefit of the Company's officers, employees, and directors. Upon shareholder approval of the Equity Plan, the Plans were frozen and no further grants will be made.

Options issued under the Plans had an exercise price equal to the stock's fair market value (based on the most recent stock trades) on the grant date. The life of options granted could not exceed 10 years.

The following is a summary of activity in the Plans for the years ended December 31, 2017 and 2016:

	2017			2016		
	Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding, beginning of year	**821,987**	**$ 9.03**	**$ 2.12**	829,178	$ 8.99	$ 2.10
Granted	**-**	**-**	**-**	11,550	9.29	3.71
Exercised	**(317,344)**	**8.34**	**3.36**	(3,263)	7.63	2.70
Forfeited	**(13,577)**	**8.49**	**3.25**	(15,478)	7.70	2.63
Expired	**(20,617)**	**12.08**	**3.66**	-	-	-
Outstanding, end of year	**470,449**	**9.37**	**1.18**	821,987	9.03	2.12
Options exercisable	**455,885**	**9.37**	**1.09**	787,725	9.03	2.05
Non-vested options, end of year	**14,564**	**9.47**	**3.87**	34,262	8.96	3.58
Options vesting during year	**12,712**	**8.48**	**3.27**	11,373	8.24	3.20
Shares available for grant	**-**			618,945		

All options outstanding have a 10-year life and all non-vested options have a five-year vesting period. Stock options outstanding and vested at December 31, 2017 have an average remaining life of 1.4 years. Exercise prices per share of outstanding stock options range from $7.57 to $13.61. At December 31, 2017, 455,885 options had an intrinsic value of approximately $1,269,000. At December 31, 2016, 781,661 options had an intrinsic value of approximately $2,054,000.

The Company utilizes the Black-Scholes valuation model to determine the compensation recognized under the fair value method described in Note 1. This fair value is then amortized on a straight-line basis over the vesting period of the option.

The following assumptions were utilized in the application of the Black-Scholes model for the year ended December 31, 2016 (no grants in 2017):

Weighted Average Risk-Free Interest Rate - The risk-free interest rate used to value option grants is based on the U.S. Treasury yield curve on the date of grant.

Expected Volatility - Expectations for volatility are based on the historical volatility of the Company's common stock at the date of grant.

Dividend Yield - Due to dividend restrictions early in the life of the Company and the anticipated need for capital to fund growth, management assumes that no dividends will be paid over the expected life of options granted.

NOTE 15 - STOCK COMPENSATION (Continued)

Expected Life - The expected life is assumed to be 75% of the contractual life of the option. This is based on a review of average life assumptions used by seasoned community banks that base their average life assumptions on actual historical exercise statistics.

The following table summarizes the weighted average assumptions used by the Black-Scholes option-pricing model stock and other information concerning stock option awards granted by the Company as of and for the year ended December 31, 2016.

	2017	**2016**
Weighted average risk-free interest rate	**-**	1.51%
Expected volatility	**-**	35%
Expected life (years)	**-**	7.5 years
Dividend yield	**-**	None
Compensation charged against pretax income	**$ 18,026**	$ 30,396
Approximate future compensation of options outstanding	**$ 48,114**	$106,804
Weighted average years remaining to recognize future compensation	**2.7 years**	3.5 years

Director Compensation Program - The Company has compensation plans for its 15 independent directors and 19 advisory board members which represent its different markets. Monthly fees earned by the directors are determined based on a combination of fixed amounts for board and committee membership, and variable amounts based on the number of meetings attended. The advisory board members earn quarterly fees that are based on meeting attendance. Total director fee expense was approximately $166,000 and $159,000 in the years ended December 31, 2017 and 2016, respectively. Total advisory board member fee expense was approximately $10,000 and $31,000 in the years ended December 31, 2017 and 2016, respectively.

Directors and advisory board members may elect payment of fees in the form of cash or in Company stock. Fees earned and payable in cash are paid quarterly, and fees payable in Company stock are accrued monthly based on the market price of the stock on the last day of each respective month. The accrued compensation is settled from authorized but unissued shares semi-annually. Stock-settled fees earned, paid, and payable as of and for the years ended December 31, 2017 and 2016 are shown in the following table.

	Advisory Directors		**Directors**		**Combined**	
	Shares	**Market Value**	**Shares**	**Market Value**	**Shares**	**Market Value**
December 31, 2017:						
Due at beginning of year	**221**	**$ 2,661**	**5,956**	**$ 71,487**	**6,177**	**$ 74,148**
Fees earned	**402**	**4,992**	**10,478**	**130,707**	**10,880**	**135,700**
Shares issued	**(458)**	**(5,578)**	**(11,145)**	**(135,556)**	**(11,603)**	**(141,133)**
Due at end of year	**165**	**$ 2,075**	**5,289**	**$ 66,638**	**5,454**	**$ 68,715**
December 31, 2016:						
Due at beginning of year	1,343	$ 12,530	5,083	$ 47,428	6,426	$ 59,958
Fees earned	1,694	17,096	12,346	134,091	14,040	151,187
Shares issued	(2,816)	(26,965)	(11,473)	(110,032)	(14,289)	(136,997)
Due at end of year	221	$ 2,661	5,956	$ 71,487	6,177	$ 74,148

NOTE 16 - REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

In April 2015, the FRB issued a final rule which increased the size limitation for qualifying bank holding companies under the FRB's Small Bank Holding Company Policy Statement from $500 million to $1 billion of total consolidated assets. As a result, the Company qualifies under the Small Bank Holding Company Policy Statement for exemption from the FRB consolidated risk-based capital and leverage rules at the holding company level.

In September 2017, the FRB, along with other bank regulatory agencies, proposed amendments to their capital requirements to simplify certain aspects of the capital rules for community banks in an attempt to reduce the regulatory burden for smaller financial institutions. Because the amendments were proposed with a request for comments and have not been finalized, the effect the final rules will have on the Company's regulatory capital calculations is unknown. In November 2017, the federal bank regulatory agencies extended for community banks the existing capital requirements for certain items that were scheduled to change effective January 1, 2018, in light of the simplification amendments being considered.

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

Effective January 1, 2015, the Bank became subject to the new regulatory risk-based capital rules adopted by the federal banking agencies implementing Basel III. Under the new capital guidelines, the Bank's regulatory capital components consist of (1) common equity Tier 1 capital (common stock, including related surplus, and retained earnings, net of goodwill and other intangibles, deferred tax assets arising from net operating loss and tax credit carry-forwards above certain levels, and accumulated other comprehensive income items), (2) additional Tier 1 capital (qualifying non-cumulative perpetual preferred stock, including related surplus), and (3) Tier 2 capital (the allowance for loan and lease losses in an amount not exceeding 1.25% of standardized risk-based assets). Total Tier 1 capital plus Tier 2 capital constitutes total risk-based capital.

The new capital guidelines also provide that all covered banking organizations must maintain a new capital conservation buffer of common equity Tier 1 capital in an amount of greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonus payments to executive officers. The capital conservation buffer requirement was phased in beginning January 1, 2016 at the 0.625% level and will be increased by that same amount on each subsequent January 1 until it reaches 2.5% on January 1, 2019. When fully phased in, the capital conservation buffer effectively will result in a required minimum common equity Tier 1 capital ratio of at least 7%, Tier 1 capital ratio of at least 8.5%, and total capital ratio of at least 10.5%.

NOTE 16 - REGULATORY MATTERS (Continued)

The final regulatory capital rules also incorporate these changes in regulatory capital into the prompt corrective action framework, under which the thresholds for “adequately capitalized” banking organizations are equal to the new minimum capital requirements described above. Under this framework, in order to be considered “well capitalized,” insured depository institutions must maintain the minimum capital ratios as presented as of December 31, 2017 in the regulatory capital table below. At December 31, 2017 and 2016, the Bank was “well capitalized.”

The following table summarizes actual and required capital levels as of December 31, 2017 and 2016.

	Actual		Basel III Minimum Phase-in Requirement		Well Capitalized Requirement	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Amounts in $000)			
As of December 31, 2017:						
Total capital (To risk weighted assets)	**$ 79,488**	**12.94%**	**$ 56,802**	**9.25%**	**$ 61,407**	**10.00%**
Tier 1 capital (To risk weighted assets)	**74,158**	**12.08**	**44,520**	**7.25**	**49,126**	**8.00**
Common equity Tier 1 (To risk weighted assets)	**74,158**	**12.08**	**35,309**	**5.75**	**39,915**	**6.50**
Tier 1 capital (To average assets)	**74,158**	**10.79**	**27,489**	**4.00**	**34,361**	**5.00**
As of December 31, 2016:						
Total capital (To risk weighted assets)	$ 71,525	12.61%	$ 48,903	8.63%	$ 56,699	10.00%
Tier 1 capital (To risk weighted assets)	66,545	11.74	37,563	6.63	45,359	8.00
Common equity Tier 1 (To risk weighted assets)	66,545	11.74	29,058	5.13	36,854	6.50
Tier 1 capital (To average assets)	66,545	10.59	25,144	4.00	31,429	5.00

NOTE 17 - RELATED PARTY TRANSACTIONS

Certain directors, executive officers and companies with which they are affiliated (collectively referred to as "insiders") are customers of and have banking transactions with the Company in the ordinary course of business. Loans to insiders are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms-length transactions. At December 31, 2017 and 2016, respectively, loans to insiders approximated $6.3 million and $6.8 million, and deposits from insiders approximated $8.9 million and $9.2 million. For both years ended December 31, 2017 and 2016, rents totaling $270,077 were paid to a related party for the lease of the Company's Asheville branch office.

NOTE 18 - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan which covers all eligible employees. For the years ended December 31, 2017 and December 31, 2016, participants could contribute up to $18,000 per year, and the Company matched contributions equal to 100% of employee contributions up to four percent (4%) plus 50% of employee contributions up to the next two percent (2%) of eligible compensation. Contributions to the plan were approximately $418,467 and $402,209 in the years ended December 31, 2017 and 2016, respectively.

The Company established nonqualified compensation plans for certain senior officers on June 1, 2017. The estimated present value of future benefits is accrued over the period from the effective date of the agreements until the expected retirement dates of the individuals. The balance accrued for these plans included in other liabilities and the related expense is included in salaries and benefits. The amount accrued and expensed as of and for the year ended December 31, 2017 totaled approximately $78,000.

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments include cash and due from banks, federal funds sold, investment securities, other investments, loans, deposit accounts, other borrowings, and accrued interest. The following methods and assumptions were used by the Company in estimating fair values of financial instruments recorded or disclosed in the financial statements:

Cash and Due from Banks - For these short-term instruments, the carrying amounts approximate their fair values.

Federal Funds Sold and Interest Bearing Bank Balances - The carrying amounts of federal funds sold and interest bearing bank balances approximate their fair value due to their short maturities (daily).

Bank Term Deposits - Fair values for fixed-rate certificates of deposit are estimated utilizing a discounted cash flow calculation that applies current market interest rates of certificates of deposits with similar remaining maturities to the portfolio of certificates of deposits.

Investment Securities - Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The Company utilizes a third party pricing service to provide valuations on its securities portfolio. Most of these securities are U.S. government agency debt obligations or agency mortgage-backed securities traded in active markets. The third party valuations are determined based on the characteristics of each security (such as maturity, duration, rating, etc.) and in reference to similar or comparable securities. Due to the nature and methodology of these valuations, the Company considers these fair value measurements as Level 2.

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Other Investments - No ready market exists for the FHLB stock, and it has no quoted market value. However, redemption of the stock historically has been at par value; therefore, it is stated at the Company's cost basis.

Loans Held for Sale - Due to their short term nature, the carrying amount of loans held for sale approximates fair value.

Loans and Finance Leases - For variable rate loans that reprice based on each change in a reference rate (e.g. prime rate), fair values are based on carrying values. Fair values for all other loans and leases are estimated using discounted cash flow analyses, with interest rates currently being offered for loans and leases with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or the net estimated realizable fair value of underlying collateral values, where applicable.

Accrued Interest Receivable and Payable - The carrying amounts for these items approximate their fair values due to the short period to settlement (three months or less).

Deposits - The fair values disclosed for demand deposits are, by definition, equal to their carrying amounts. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated monthly maturities.

Securities Sold under Agreements to Repurchase - The carrying value of these retail repurchase agreements approximates fair value since these obligations mature daily.

Advances from FHLB of Atlanta - The valuation methodology utilizes a discounted cash flow calculation that applies current offered interest rates for fixed rate advances with similar remaining maturities.

Derivative Instruments - Derivative instruments, including interest rate swaps and swap fair value hedges, are recorded at fair value on a recurring basis as determined by the third party provider.

Off-Balance Sheet Instruments - Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The total fair value of such instruments is not material.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant 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, therefore, cannot be determined with precision. Changes in assumptions could affect these estimates significantly.

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair values of the Company's financial instruments were as follows at December 31, 2017 and 2016:

	2017		**2016**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:				
Cash and due from banks	**$ 17,899,745**	**$ 17,899,745**	$ 13,100,026	$ 13,100,026
Federal funds sold and interest bearing bank balances	**956,266**	**956,266**	3,642,070	3,642,070
Bank term deposits	**509,000**	**509,715**	2,252,000	2,250,727
Investment securities, available for sale	**103,309,869**	**103,309,869**	97,976,406	97,976,406
Other investments	**1,337,500**	**1,337,500**	1,461,600	1,461,600
Loans held for sale	**170,444**	**170,444**	2,093,952	2,093,952
Loans and finance leases, net	**521,184,433**	**517,062,000**	488,136,402	490,681,000
Bank-owned life insurance	**17,272,897**	**17,272,897**	11,358,608	11,358,608
Accrued interest receivable	**1,753,063**	**1,753,063**	1,567,568	1,567,568
Interest rate derivatives	**942,830**	**942,830**	711,778	711,778
Financial Liabilities:				
Deposits	**$566,988,758**	**$534,239,000**	$527,599,212	$503,320,000
Securities sold under agreements to repurchase	**15,589,977**	**15,589,977**	16,711,164	16,711,164
Advances from FHLB of Atlanta	**15,500,000**	**15,592,000**	21,500,000	21,553,000
Federal funds purchased	**4,780,000**	**4,780,000**	3,180,000	3,180,000
Accrued interest payable	**152,866**	**152,866**	115,025	115,025
Interest rate derivatives	**942,830**	**942,830**	711,778	711,778

The Company reports fair value on a recurring basis for certain financial instruments, most notably available for sale investment securities. The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

	Total	**Level 1**	**Level 2**	**Level 3**
December 31, 2017:				
Financial Assets:				
Investment securities, available for sale:				
U.S. government agency and sponsored enterprises	**$ 10,475,248**	**$ -**	**$ 10,475,248**	**$ -**
Agency mortgage-backed securities	**36,181,727**	**-**	**36,181,727**	**-**
Agency collateralized mortgage obligations	**22,871,681**	**-**	**22,871,681**	**-**
Corporate securities	**1,010,879**		**1,010,879**	
Municipal securities	**32,770,334**	**-**	**32,770,334**	**-**
Interest rate derivatives	**942,830**	**-**	**942,830**	**-**
Total	**$104,252,699**	**$ -**	**$104,252,699**	**$ -**
Financial Liabilities:				
Interest rate derivatives	**$ 942,830**	**$ -**	**$ 942,830**	**$ -**

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Total	Level 1	Level 2	Level 3
December 31, 2016:				
Financial Assets:				
Investment securities, available for sale:				
U.S. government agency and sponsored enterprises	$ 12,563,898	$ -	$ 12,563,898	$ -
Agency mortgage-backed securities	35,524,974	-	35,524,974	-
Agency collateralized mortgage obligations	20,472,568	-	20,472,568	-
Municipal securities	29,414,966	-	29,414,966	-
Interest rate derivatives	711,778	-	711,778	-
Total	$ 98,688,184	$ -	$ 98,688,184	$ -
Financial Liabilities:				
Interest rate derivatives	$ 711,778	$ -	$ 711,778	$ -

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value which was below cost at the end of the period. Assets subject to non-recurring use of fair value measurements include impaired loans, PCI loans, and foreclosed assets. Due to the use of both observable and unobservable inputs and the significant amount of judgment required in the determination of fair values, both of these categories of assets are considered to be valued under Level 3 inputs.

The fair value of impaired and PCI loans is determined based upon the present value of expected cash flows discounted at the loan's effective interest rate or the estimated net realizable fair value of the collateral if the loan is collateral-dependent. The fair value of collateral is determined by obtaining an observable market price or obtaining an appraised value from an independent licensed or certified appraiser, using observable market data.

This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, adjusted for differences in the properties, expected future cash flows, or earnings of the subject property based on current market expectations and other relevant factors. In addition, management may apply selling and other discounts to the underlying collateral value to determine the fair value.

Other real estate owned is valued by use of appraisals and management's judgment as described for valuation of collateral underlying collateral-dependent impaired loans.

NOTE 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Total	Level 1	Level 2	Level 3
December 31, 2017:				
Impaired loans	**$ 4,448,246**	**$ -**	**$ -**	**$ 4,448,246**
Purchased credit-impaired loans	**1,358,156**	**-**	**-**	**1,358,156**
Other real estate owned	**-**	**-**	**-**	**-**
Total	**$ 5,806,402**	**$ -**	**$ -**	**$ 5,806,402**
December 31, 2016:				
Impaired loans	$ 4,350,051	$ -	$ -	$ 4,350,051
Purchased credit-impaired loans	3,275,884	-	-	3,275,884
Other real estate owned	127,595	-	-	127,595
Total	$ 7,753,530	$ -	$ -	$ 7,753,530

For Level 3 assets and liabilities measured at fair value on a non-recurring basis as of December 31, 2017 and 2016, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value		Valuation Technique	Significant Unobservable Inputs	Discount Range
	2017	2016			
Impaired loans	**$ 4,448,246**	$ 4,350,051	Appraised Value, Discounted Cash Flows and Market Value of the Underlying Collateral	Discount Factors Applied to Valuations for: Shorter Marketing Period (Liquidation Approach), Sales Commissions, and Selling Costs	0% - 14%
Purchased credit-impaired loans	**1,358,156**	3,275,884	Discounted Expected Cash Flows and Market Value of the Underlying Collateral	Estimates of Probability and Timing of Default and Payment Patterns	0% - 60%
Other real estate owned	**-**	127,595	Appraised Value and Estimates from Independent Sources	Discount Factors Applied to Valuations for: Shorter Marketing Period (Liquidation Approach), Sales Commissions, and Selling Costs	0% - 14%
Total	**$ 5,806,402**	$ 7,753,530			

NOTE 20 - PARENT COMPANY INFORMATION

Following is condensed financial information of CAB Financial Corporation (parent company only).

Condensed Balance Sheet
December 31, 2017

Assets:	
Cash	**$ 100,773**
Investment in Bank	**78,063,831**
Other assets	**28,396**
Total assets	**$ 78,193,000**
Liabilities	**$ 124,580**
Shareholders' equity	**78,068,420**
Total liabilities and shareholders' equity	**$ 78,193,000**

Condensed Statement of Income
For the Period March 20, 2017 (Inception) to December 31, 2017

Income – dividends received from Bank	**$ 100,673**
Expenses	**135,369**
Loss before equity in undistributed net income of Bank	**(34,696)**
Income tax benefit	**(39,285)**
Net income before equity in undistributed net income of Bank	**4,589**
Equity in undistributed net income of Bank	**4,681,119**
Net income	**$ 4,685,708**

Condensed Statement of Cash Flows
For the Period March 20, 2017 (Inception) to December 31, 2017

Operating Activities:	
Net income	**$ 4,685,708**
Adjustments to reconcile net income to net cash provided by operating activities:	
Increase in assets	**(28,396)**
Increase in liabilities	**124,580**
Equity in undistributed net income of Bank	**(4,681,119)**
Net cash provided by operating activities	**100,773**
Cash and Cash Equivalents, Beginning of Period	**-**
Cash and Cash Equivalents, End of Period	**$ 100,773**