



## PROXY STATEMENT

### PROXY STATEMENT 2017 ANNUAL MEETING OF STOCKHOLDERS June 20, 2017

#### SOLICITATION, VOTING AND REVOCABILITY OF PROXIES

##### General

This Proxy Statement is being furnished to stockholders of CB Financial Corporation (the "Company") in connection with the solicitation by the Board of Directors of the Company (the "Board") of proxies to be used at the 2017 Annual Meeting of Stockholders (the "Meeting") to be held on June 20, 2017 at 3:00 p.m., Eastern Time, at the Cornerstone Bank Operations Center, 3105 Nash Street North, Wilson, North Carolina 27896, and at any adjournments thereof. The Notice of Annual Meeting was first mailed to stockholders on or about May 30, 2017.

The Company's principal executive offices are located at 3710 Nash Street North, Wilson, North Carolina 27896-1120. The telephone number is (252) 243-5588.

Other than the matters listed on the Notice of Annual Meeting, the Board knows of no matters that will be presented for consideration at the Meeting. Execution of a proxy, however, confers on the designated proxyholders discretionary authority to vote the shares represented thereby in accordance with their best judgment on any other business that may properly come before the Meeting or any adjournments thereof.

##### Revocability of Proxy

A proxy may be revoked at any time prior to its exercise by the filing of a written notice of revocation with the Secretary of the Company, by delivering to the Company a duly executed proxy bearing a later date, by re-voting via the Internet before 11:59 p.m. Eastern Time, June 19, 2017, or by attending the Meeting and voting in person. "Street name" stockholders who wish to vote in person at the Meeting will need to obtain a proxy form from the institution that holds their shares.

##### Solicitation

The cost of solicitation of proxies on behalf of the Board will be paid by the Company. The Company reserves the right to engage a proxy solicitor to help solicit proxies for the Meeting. In addition to the use of the mail, proxies may be solicited personally or by telephone by directors, officers and regular employees of the Company and its wholly-owned subsidiary, Cornerstone Bank (the "Bank"), without additional compensation for doing so. The Company will reimburse brokerage houses and other custodians, nominees and fiduciaries upon request for their reasonable expenses related to mailing proxy materials to beneficial owners.

## **Voting Securities – Common Stock**

Regardless of the number of shares of common stock owned, it is important that stockholders be present in person or represented by proxy at the Meeting. Stockholders are requested to vote electronically or by completing the form of proxy and returning it signed and dated in the postage-paid envelope. If a proxy is properly voted, either electronically or in writing, and not revoked, it will be voted in accordance with the instructions given in the proxy. If no instructions are given, the proxy will be voted **FOR** each of the nominees and **FOR** each proposal. If instructions are given with respect to one but not both proposals, the proxyholders will follow the instructions given and will vote **FOR** the proposal on which no instructions are given. If matters not described in this Proxy Statement are presented at the Meeting, the proxyholders will use their best judgment to determine how to vote your shares. We are not aware of any other matters to be presented except those described in the Proxy Statement. If the Meeting is adjourned, your common stock may be voted by the proxyholders on the new meeting date as well, unless you have revoked your proxy.

## **Stockholders Entitled to Vote at the Meeting**

The close of business on May 19, 2017 has been fixed by the Board as the record date (“Record Date”) for the determination of those stockholders of record entitled to notice of and to vote at the Meeting and any adjournments thereof. As of the Record Date, the Company had outstanding 47,544,924 shares of common stock. Each share of common stock entitles its owner to one vote on each matter calling for a vote of stockholders at the Meeting.

## **Quorum**

The presence, in person or by proxy, of the holders of at least a majority of the total number of shares of common stock entitled to vote at the Meeting is necessary to constitute a quorum. Because many of our stockholders cannot attend the Meeting, it is necessary that a large number be represented by proxy. Accordingly, the Board has designated proxies to represent those stockholders who cannot be present in person and who desire to be so represented. In the event there are not sufficient votes for a quorum or to approve or ratify any proposal at the time of the Meeting, the Meeting may be adjourned in order to permit the further solicitation of proxies.

Abstentions, broker “non-votes” and votes withheld from any director nominee will be counted for purposes of determining a quorum, but will not be counted in tabulating the votes cast on any proposal submitted to the stockholders. A broker “non-vote” occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

## **Vote Required for Approval**

*Election of Directors.* In order to be elected, a nominee need only receive a plurality of the votes cast in the election of the applicable class of directors for which he or she has been nominated. As a result, those persons nominated for election that receive the largest number of votes will be elected as directors. No stockholder has the right to vote his or her shares cumulatively in the election of directors.

*Ratification of Auditor.* The proposal to ratify the appointment of the Company’s independent auditor for the year ending December 31, 2017 will be approved if the votes cast in favor of the proposal exceed the votes cast against the proposal.

Proxies should be returned to the Board, and will be tabulated by one or more inspectors of election designated by the Board.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Set forth below is certain information, as of the Record Date, regarding all persons or groups, as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”), who held of record or who are known to the Company to own beneficially more than 5% of the Company’s common stock.

<u>Name and Address of Beneficial Owner</u>	<u>Beneficial Ownership</u> <sup>(1)</sup>	<u>Percentage</u> <sup>(2)</sup>
Mark A. Holmes 3204 Westchester Court NW Wilson, NC 27896	4,700,000	9.89%
Howard T. Sanders 2129 Rivershore Road Elizabeth City, NC 27909	4,700,000	9.89%
Gregory A. Turnage 4637 Dewfield Drive Wilson, NC 27893	6,389,966	13.44%
S. Christopher Williford 2204 Greenwich Lane Wilson, NC 27896	3,913,585	8.23%

<sup>1</sup> Unless otherwise noted, all shares are owned directly of record by the named individuals, by their spouses and minor children, or by other entities controlled by the named individuals.

<sup>2</sup> Based upon a total of 47,544,924 shares of common stock outstanding as of the Record Date.

Set forth below is certain information as of the Record Date regarding the shares of common stock beneficially owned by each of the members of the Board, each of the executive officers of the Company and the Bank, and the directors and executive officers of the Company and the Bank as a group.

<u>Name and Address of Beneficial Owner</u>	<u>Beneficial Ownership</u> <sup>(1)</sup>	<u>Percentage</u> <sup>(2)</sup>
John C. Anthony, Jr. 3302 Sweetbriar Place Wilson, NC 27896	310,113	*
Mark A. Holmes 3204 Westchester Court NW Wilson, NC 27896	4,700,000	9.89%
Michelle F. Joyner 3519 Whetstone Place N Wilson, NC 27896	3,119	*
Robert E. Kirkland, III 2100 Hermitage Road Wilson, NC 27893	304,054	*

<u>Name and Address of Beneficial Owner</u>	<u>Beneficial Ownership<sup>(1)</sup></u>	<u>Percentage<sup>(2)</sup></u>
Judy A. Muirhead 410 Mount Vernon Drive NW Wilson, NC 27893	280,734	*
W. Coalter Paxton, III 1113 Lakeside Drive Wilson, NC 27896	1,218,352	2.08%
Christopher O. Robbins 203 Jamestown Road Greenville, NC 27858	6,714	*
Gregory A. Turnage 4637 Dewfield Drive Wilson, NC 27893	6,389,966	13.44%
S. Christopher Williford 2204 Greenwich Lane Wilson, NC 27896	3,913,585	8.23%
David W. Woodard 105 Ripley Road Wilson, NC 27893	75,087	*
All directors and executive officers as a group (10 people)	17,201,724	36.18%

\* Represents less than 1% of the outstanding common stock.

<sup>1</sup> Unless otherwise noted, all shares are owned directly of record by the named individuals, by their spouses and minor children, or by other entities controlled by the named individuals.

<sup>2</sup> Based upon a total of 47,544,924 shares of common stock outstanding as of the Record Date.

## PROPOSAL 1

### ELECTION OF DIRECTORS

#### Nominees

The Company's Articles of Incorporation provide that the number of its directors shall not be less than five nor more than 30. The Board has currently fixed the size of the Board at 10 members. The Articles of Incorporation provide that, so long as the total number of directors, as fixed pursuant to the Company's Bylaws, is nine or more, the directors shall be divided into three classes, as nearly equal as possible in number. Each director in a class is elected by our Common Stockholders for a term of three years or until his or her earlier death, resignation, retirement, removal or disqualification or until his or her successor is elected and qualified. As a result, there is one class of directors to be elected at the Meeting for a three-year term.

There are currently nine Board members. The terms of three of our current directors expire at the Meeting. Based on the recommendation of our Nominating and Corporate Governance Committee, these three directors have been nominated by our Board for election at the Meeting. If the three nominees are elected, there will be nine directors serving on our Board following the Meeting, leaving one vacancy to be filled by either our Board or our stockholders. Notwithstanding the vacancy, proxies may not be voted at the Meeting for a greater number of persons than the number of nominees. We believe leaving a vacant seat on our Board is in the best interests of the Company since it permits our Board to elect an additional director to the Board before the 2018 Annual Meeting should we identify a candidate who has qualifications which would enhance our Board's capabilities and/or who would further the Bank's relationships within our community. Our Board has not currently identified any such candidates, and by creating this vacancy, it does not necessarily mean any appointments will be made before the 2018 Annual Meeting.

The persons named in the form of proxy intend to vote any shares of Common Stock represented by valid proxies received by them to elect the three nominees listed below as directors for a three-year term, unless authority to vote is withheld or any proxies are duly revoked. In the event that any of the nominees should become unavailable to accept nomination or election, it is intended that the proxyholders will vote to elect in his or her stead such other person (if any) that the present Board may recommend. The present Board has no reason to believe that any of the named nominees will be unable to serve if elected to office.

The following table sets forth certain information as to each director nominee, with ages given as of May 1, 2017.

**NOMINEES FOR TERM ENDING AS OF 2020 ANNUAL MEETING**

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Principal Occupation During Last Five Years</u></b>	<b><u>Term Expires</u></b>	<b><u>Director of Bank Since</u></b>	<b><u>Director of Company Since</u></b>
Christopher O. Robbins	47	Chief Executive Officer and Chief Credit Officer of the Company and the Bank	2017	2017	2017
Gregory A. Turnage	56	President and owner, PLT Construction, Inc., PLT Utilities, Inc., and Turnage Properties, Inc.; Owner, T. & H. Electric, Inc.; Member Pinecrest Development Co., LLC, Canterbury Development, LLC and Lake Wilson, LLC; Partner, TAG Development; President, GETSco, Inc., Greg-Greg, Inc., Bluffs Property Co., and Vision Development Co.	2017	2000	2005
S. Christopher Williford	58	President, SPC Mechanical, Inc. (mechanical contracting services)	2017	2000	2005

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE ABOVE-LISTED NOMINEES FOR ELECTION AS DIRECTORS.**

The following table sets forth certain information as to each director continuing in office, with ages given as of May 1, 2017.

**DIRECTORS CONTINUING IN OFFICE**

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Principal Occupation During Last Five Years</u></b>	<b><u>Term Expires</u></b>	<b><u>Director of Bank Since</u></b>	<b><u>Director of Company Since</u></b>
Mark A. Holmes	60	President and Chief Financial Officer of the Company and the Bank. Previously, President and Chief Executive Officer of Select Bank & Trust Co.	2018	2014	2014
Judy A. Muirhead	68	Owner/Manager, JAM Properties	2018	2000	2005
David W. Woodard	66	Law Partner, Connor, Bunn, Rogerson, Woodard, Fleming & Blake P.L.L.C.	2018	2000	2005
John Charles Anthony, Jr.	64	Partner, Anthony & Tabb, P.A. (CPAs); Chairman of the Company and the Bank.	2019	2000	2005
Robert E. Kirkland III	64	Owner/Manager, Barnes Motor & Parts Co., Inc.	2019	2000	2005
W. Coalter Paxton III	55	President, Paxton Mini Storages, Inc. and PBS Storages, Inc.; Manager, Paxton Bonded Storages, Inc.; Member, Pinecrest Development Co. LLC, Pinecrest Farm Holdings LLC; Greg-Greg, Inc., Partner, GETSco, Inc. and Greco Development, LLC.	2019	2000	2005

**Meetings of the Board and Committees of the Board**

The Board regularly meets once a month, with additional meetings scheduled, as needed. During the fiscal year ended December 31, 2016, the Board held 13 meetings. All of the current members of the Board attended at least 75% of the aggregate number of meetings of the Board and the committees on which they served during 2016.

The Board has three standing committees to which certain responsibilities have been delegated – the Audit/Compliance Committee, the Nominating and Corporate Governance Committee, and the Compensation Committee. The Board may also appoint directors to serve on other committees as the need arises.

**Committees of the Bank Board**

The Bank’s Board of Directors has six standing committees to which certain responsibilities have been delegated – the Executive Committee, the Loan Committee, the Asset Liability/Investment Committee, the Audit/Compliance Committee, the Nominating and Corporate Governance Committee, and the Compensation Committee. The Bank’s Audit/Compliance Committee meets jointly with the Company’s Audit/Compliance Committee. The Bank’s Nominating and Corporate Governance Committee meets jointly with the Company’s Nominating and Corporate Governance Committee. Also, the Bank’s Compensation Committee meets jointly with the Company’s Compensation Committee. The Bank Board may appoint other committees of its members to perform certain more limited functions from time to time.

## **Director Attendance at Annual Meeting**

Although it is customary for all Board members to attend, the Company has no formal policy in place with regard to Board members' attendance at its annual meetings of stockholders. All Board members attended the 2016 annual meeting held on May 17, 2016.

## **Director Independence**

The Board has determined that except for the Company's President and Chief Financial Officer, Mark A. Holmes, and the Company's Chief Executive Officer and Chief Credit Officer, Christopher O. Robbins, all of its members are "independent," as that term is defined by the rules and listing standards of the NASDAQ Stock Market ("NASDAQ").

## **Process for Communicating with Board Members**

The Company does not have a formal procedure for stockholder communication with our Board. In general, the Company's directors and executive officers are easily accessible by telephone, postal mail or electronic mail. Any matter intended for the Board, or for any individual member(s) of the Board, can be directed to Mark A. Holmes, the President and Chief Financial Officer, at the following address with a request to forward the same to the intended recipient: CB Financial Corporation, P.O. Box 8189, Wilson, North Carolina 27893. Alternatively, stockholders may direct correspondence to the Board, or any of its members, in care of the Company at the Company's address above. All of these communications received will be forwarded to the intended recipient unopened.

## **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee is composed of John C. Anthony, Jr. (Chairman), Gregory A. Turnage and W. Coalter Paxton III. The Committee met one time during 2016.

The Committee establishes corporate governance policies, evaluates qualifications of and candidates for positions on the Board, nominates new and replacement members for the Board and recommends Board committee composition. In addition, the Committee facilitates an annual evaluation by Board members of the Board and individual director performance. The Committee has adopted a written charter. A copy of this charter is available on the "Investor Relations" page of the Bank's website at <http://www.thecornerstonebank.com>.

*Process for Nominating Directors.* The Committee reviews the qualifications of, and approves and recommends to the Board, those individuals to be nominated for positions on the Board and submitted to stockholders for election at each annual meeting. The Committee identifies director nominees from various sources such as officers, directors, and stockholders. During 2016, the Committee did not retain the services of any third party consultants to assist in identifying and evaluating potential nominees. The Committee will consider and evaluate a director candidate recommended by a stockholder in the same manner as a Committee-recommended nominee. The Committee will assess all director nominees taking into account several factors including, but not limited to, issues such as the current needs of the Board and the nominee's: (i) integrity, honesty and accountability; (ii) successful leadership experience and strong business acumen; (iii) forward-looking, strategic focus; (iv) collegiality; (v) independence and absence of conflicts of interests; (vi) ability to devote necessary time to meet director responsibilities; and (vii) ability to commit to stock ownership in the Company. Where appropriate, the Committee will ultimately recommend nominees whom it believes will enhance the Board's ability to manage and direct, in an effective manner, the affairs and business of the Company. Additional factors the Committee may consider in evaluating candidates include: (i) independence under applicable listing standards; (ii) relevant business experience; (iii) judgment, skill and reputation; (iv) number of other boards on which the candidate serves; (v) other business and professional commitments; (vi) lack of potential conflicts of interest with other pursuits; (vii) whether the candidate is a party to any action or arbitration adverse to the Company; (viii) financial and accounting background to enable the Committee to determine whether the candidate would be suitable for Audit/Compliance Committee membership or qualify as an "audit committee financial expert;" and (ix) the size and composition of the

existing Board. In evaluating candidates, the Committee also seeks to achieve a balance of knowledge, experience and capability on the Board.

Before nominating a current director for re-election at an annual meeting, the Committee will consider the director's performance on the Board and whether the director's re-election will be consistent with any corporate governance policies of the Company.

*Stockholder Nominations.* In addition, stockholders may nominate a director nominee for submission to stockholders in accordance with the advance notice procedures in the Company's Bylaws which are described in the section of this Proxy Statement titled "Date for Receipt of Stockholder Proposals."

### **Compensation Committee**

The Compensation Committee is composed of Robert E. Kirkland III (Chairman) and W. Coalter Paxton III. The Committee met two times during 2016.

The Committee determines the compensation of the executive officers of the Company and the Bank. The salary of each executive officer is determined based upon the executive officer's contributions to the Company's and the Bank's overall profitability, maintenance of regulatory compliance standards, professional leadership, and management effectiveness in meeting the needs of day-to-day operations. The Committee also compares the compensation of the executive officers with compensation paid to executives of comparable financial institutions in North Carolina and executives of other businesses in the Bank's market area. In addition, the Committee receives the recommendations of the President and Chief Financial Officer, Mark A. Holmes, for the compensation to be paid to executive officers, and after due deliberation determines the compensation of those executive officers and the President and Chief Financial Officer. This process is designed to ensure consistency throughout the executive compensation program. Mr. Holmes participates in the deliberations of the Committee regarding compensation of executive officers other than himself. He does not participate in discussions or decisions regarding his own compensation. The Committee has adopted a written charter. A copy of this charter is available on the "Investor Relations" page of the Bank's website at <http://www.thecornerstonebank.com>.

### **Audit/Compliance Committee**

The Audit/Compliance Committee is composed of John Charles Anthony, Jr. (Chairman), Judy A. Muirhead, Gregory A. Turnage, W. Coalter Paxton III and David W. Woodard. The Board has determined that each of these members is "independent" under the NASDAQ listing standards. In addition, the Board has determined that Gregory A. Turnage and John Charles Anthony, Jr. qualify as "audit committee financial experts" as defined under applicable rules and regulations. The Committee met four times during 2016.

The Audit/Compliance Committee has adopted a written charter, which is reviewed annually, and amended as needed, by the Committee. A copy of this charter is available on the "Investor Relations" page of the Bank's website at <http://www.thecornerstonebank.com>. In accordance with its charter, the Committee meets on an as-needed basis, but not less than four times annually, and oversees: (i) the integrity of the Company and the Bank's financial statements; (ii) the adequacy of the Company and the Bank's financial reporting process; (iii) the Company and the Bank's systems of internal controls, which include but are not limited to, accounting and financial controls; (iv) the performance of the Company and the Bank's internal audit function, other third party vendors, state and federal regulatory functions and independent financial statement auditors; (v) the independent financial statement auditors' qualifications and independence; (vi) the Company and the Bank's compliance with its policies about ethical conduct and legal and regulatory compliance requirements and (v) the Company and the Bank's on going compliance with existing policies and procedures. Additionally, the Committee assists the Board and the Bank Board in fulfilling the responsibility to oversee management's compliance with the regulatory obligations of the Company and the Bank arising under applicable federal and state banking and financial institution laws, rules, and regulations, including any terms and conditions required from time to time by any action, formal or informal, of the Board of Governors of the Federal Reserve System, the Federal Depository Insurance Corporation, the North Carolina Banking Commission, or any other federal or state banking regulatory agency or authority, and any response of management to any inquiries from any applicable banking regulator.

*Audit/Compliance Committee Report.* The Committee has reviewed and discussed with management the Company’s audited financial statements for the fiscal year ended December 31, 2016. The Committee has discussed with the Company’s independent auditor the matters required to be discussed by the Statement on Auditing Standards No. 114, The Auditor’s Communication with those Charged with Governance, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380). The Committee has received the written disclosures and the letter from the independent auditor required by applicable requirements of the AICPA regarding the independent auditor’s communications with the Committee concerning independence, and has discussed with the independent auditor the independent auditor’s independence. Based upon the Committee’s review and discussions with management and the independent auditor referenced above, the Committee recommended to the Board that the Company’s audited financial statements be included in the Company’s Annual Report. The Committee also reappointed the independent auditor and the Board concurred in such appointment.

Members of the Audit/Compliance Committee

John C. Anthony – Chairman  
 Judy A. Muirhead  
 Gregory A. Turnage  
 W. Coalter Paxton III  
 David W. Woodard

**Director Compensation**

*Directors’ Fees.* Between July 1, 2010 and November 17, 2015, our directors did not receive any compensation for their services on the Board, the Bank Board or committees of the Board and the Bank Board. In November 2015 we resumed payment of Board and committee fees at a rate of \$250 and \$100 per meeting, respectively.

**Executive Officers**

The following table sets forth certain information with respect to the Company’s executive officers, with ages given as of May 1, 2017.

<u>Name</u>	<u>Age</u>	<u>Positions and Occupations During Last Five Years</u>	<u>Employed By the Bank Since</u>	<u>Employed By the Company Since</u>
Mark A. Holmes	60	President and Chief Financial Officer of the Company and the Bank. Previously, President and Chief Executive Officer of Select Bank & Trust Co.	2014	2014
Michelle F. Joyner	36	Senior Vice President, Controller and Chief Operations Officer of the Bank	2002	---
Christopher O. Robbins	47	Chief Executive Officer and Chief Credit Officer of the Company and the Bank	2014	2014

**Management Compensation**

In October, 2014, the Company and the Bank agreed to enter into an employment agreement (the “Agreement”) with its President and Chief Financial Officer, Mark A. Holmes, in order to establish his duties and compensation and to provide for his continued employment with the Company and the Bank. The Agreement provides for an annual base salary of not less than \$225,000, a monthly automobile allowance of \$750 and reimbursement of moving expenses and country club membership fees. The Agreement provides for an initial term of employment of two years. At the expiration of the initial term and annually thereafter, unless notice of a non-extension is given by either party, the Agreement will be extended automatically for an additional year. In addition, the Agreement provided for the award of 250,000 shares of Common Stock, which grant vested in October 2015, and the grant of additional stock awards upon the achievement of specified performance goals. Mr. Holmes is also

entitled to receive such fringe benefits and participate in all retirement, welfare, health and other benefit plans or programs currently offered by the Company to other executive officers or which may be later offered to other executive officers. The Agreement provides that Mr. Holmes may be terminated by the Company for cause, as defined in the Agreement, and that his employment may otherwise be terminated by the Company or by him. If Mr. Holmes' employment is terminated without cause or as a result of a change in control of the Company or the Bank, the Agreement entitles Mr. Holmes to receive severance compensation equal to 12 months' base salary.

### **Certain Indebtedness and Related Transactions**

The Bank has had, and expects to have in the future, banking transactions in the ordinary course of its business with certain of our and its current directors, executive officers, and other related persons. All loans included in those transactions during 2016 were made in the ordinary course of the Bank's business on substantially the same terms, including interest rates, repayment terms and collateral, as those prevailing at the time those loans were made for comparable transactions with other persons, those loans did not involve more than the normal risk of collectability or present other unfavorable features. As a consequence of the downturn in the economy and the effect this has had on the value and salability of real estate, including projected cash flows of real estate developments, loans made to our director, David W. Woodard, have been adversely affected. Details of these loans are provided below. Each of these loans continues to be paid in accordance with its terms.

The Bank has made three loans in the aggregate amount of \$165,000.00 to Mr. Woodard and related entities. During 2016, the largest aggregate amount of principal outstanding was \$146,391.63. As of the Record Date, \$127,572.93 of principal and \$636.26 of accrued interest remains outstanding. During 2016, Mr. Woodard and related entities made \$22,206.84 in principal payments and paid \$8,815.90 in interest on the loans. As of the Record Date, during 2017, Mr. Woodard and related entities have made \$4,901.77 in principal payments and paid \$3,141.78 in interest on the loans.

The highest aggregate outstanding balance of loans to current directors, executive officers and their associates as a group during 2016 was \$3,185,061.36 (the amount outstanding on March 31, 2016), which represented approximately 31.62% of the Bank's then current equity capital accounts.

**PROPOSAL 2**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR**

Cherry Bekaert LLP (“Cherry Bekaert”) has been appointed by the Audit/Compliance Committee as the Company’s and the Bank’s independent auditor for the year ending December 31, 2017. This appointment has been approved by the Board and is being submitted to the Company’s stockholders for ratification. Representatives of Cherry Bekaert are expected to attend the Meeting and will be afforded an opportunity to make a statement, if they so desire, and to respond to appropriate questions from stockholders.

**THE BOARD RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF CHERRY BEKAERT LLP AS INDEPENDENT AUDITOR FOR THE COMPANY FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017.**

**Audit Fees Paid to Independent Auditor**

The following table represents fees for professional services rendered by Cherry Bekaert for the audit of the Company’s annual financial statements for the years ended December 31, 2016 and 2015 and fees billed for audit-related services, tax services and all other services rendered by Cherry Bekaert for each of those fiscal years.

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Audit Fees <sup>1</sup> .....	\$ 43,832	\$ 45,986
Audit-Related Fees <sup>2</sup> .....	\$ 0	\$ 0
Tax Fees <sup>3</sup> .....	\$ 6,000	\$ 6,930
All Other Fees <sup>4</sup> .....	\$ 1,400	\$ 3,900
Total Fees .....	<u>\$ 51,232</u>	<u>\$ 56,816</u>

<sup>1</sup> These are fees paid for professional services rendered for the audit of the Company’s annual financial statements and for services normally provided in connection with statutory or regulatory filings or engagements.  
<sup>2</sup> These are fees paid for assurance and related services that were reasonably related to the performance of the audit or review of our consolidated financial statements and that are not reported under “Audit Fees” above.  
<sup>3</sup> These are fees paid for professional services rendered for tax compliance, tax planning and tax advice, including assistance in the preparation of the Company’s various federal, state and local tax returns, tax credit consultation and franchise tax return amendments.  
<sup>4</sup> These are fees paid for permissible work performed by Cherry Bekaert that does not meet the above categories

**Pre-Approval of Audit and Permissible Non-Audit Services**

All audit-related services, tax services and other services rendered in 2016 were pre-approved by the Audit/Compliance Committee, which concluded that the provision of those services by Cherry Bekaert was compatible with the maintenance of that firm’s independence in the conduct of its auditing functions. The Committee’s charter provides for pre-approval of all audit and non-audit services to be provided by the Company’s independent auditor. The charter authorizes the Committee to delegate to one or more of its members pre-approval authority with respect to permitted services, provided that any approvals using this procedure are presented to the Audit/Compliance Committee at its next scheduled meeting.

**DATE FOR RECEIPT OF STOCKHOLDER PROPOSALS**

It is presently anticipated that the 2018 annual meeting of stockholders will be held in May 2018. In order for stockholder proposals to be considered at that meeting, notice of those proposals must be received by the Secretary of the Company at the Company’s main office not less than 60 days nor more than 90 days prior to the first anniversary of the Meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder must be so delivered not earlier than the 90<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 60<sup>th</sup> day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

Each notice of stockholder proposal must set forth (i) a brief description of the business desired to be brought before the annual meeting and the reasons for bringing such business before the annual meeting, (ii) the name and address, as they appear on the Company's books, of each stockholder proposing such proposal, (iii) the classes and number of shares of the Company that are owned of record and beneficially by such stockholder, and (iv) any material interest of such stockholder in such proposal other than his interest as a stockholder of the Company. Additionally, stockholders must also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to stockholder proposals.

The Company's Bylaws provide that, in order to be eligible for consideration at a meeting of stockholders, all nominations of directors, other than those made by the Board, must be made in writing by a stockholder entitled to vote on such election and must be delivered to the Secretary of the Company at the principal office of the Company not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, such notice by a stockholder must be so delivered not earlier than the 90<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 60<sup>th</sup> day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination, the beneficial owner, if any, on whose behalf the nomination is made and of the person or persons to be nominated; (b) the class and number of shares of stock of the Company which are owned beneficially and of record by such stockholder and such beneficial owner, and a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) all other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission if the nominee had been nominated by the Board; and (e) the written consent of each nominee to serve as director of the Company if so elected.

#### **OTHER MATTERS**

Management knows of no other matters to be presented for consideration at the Meeting or any adjournments thereof. If any other matters shall properly come before the Meeting, it is intended that the proxyholders named in the form of proxy will vote the shares represented thereby in accordance with their judgment, pursuant to the discretionary authority granted therein.

#### **MISCELLANEOUS**

The Annual Report of the Company for the year ended December 31, 2016 includes financial statements audited and reported upon by the Company's independent auditor; however, it is not intended that the Annual Report be a part of this Proxy Statement.

By Order of the Board of Directors



Mark A. Holmes  
President and Chief Financial Officer

Wilson, North Carolina  
May 30, 2017