PROXY STATEMENT

CB Financial Corporation (the "Company") and Cornerstone Bank ("Cornerstone") have entered into an agreement with PB Financial Corporation ("PBC"), its subsidiary, PB Acquisition Corp. I (the "Merger Sub") and Providence Bank; to merge Merger Sub into the Company, and thereafter merge the Company into PBC and Cornerstone into Providence Bank. PBC and Providence Bank will be the surviving entities of these mergers.

Upon the completion of the merger of Merger Sub into the Company, the shareholders of the Company will receive in exchange for each share of Company common stock they own $0.235 in cash.

This proxy statement is being distributed by the Company to its shareholders in connection with a special meeting of the Company at which its shareholders will vote upon the merger of Merger Sub into the Company. None of the other transactions described in the agreement require approval by the Company's shareholders. This document contains important information about the merger of Merger Sub into the Company and the other matters to be voted upon by the Company's shareholders. As further described in this proxy statement, none of the proposed transactions can be completed unless PBC and Providence Bank obtain the necessary government approvals of the mergers described herein, the shareholders of Providence Bank approve a Plan of Reorganization providing that PBC will become the holding company parent of Providence Bank and that the outstanding shares of Providence Bank common stock will be exchanged for shares of the common stock of PBC, Providence Bank consummates a sale of newly issued common stock for an aggregate purchase price of $8.0 million, Providence Bank receives regulatory approval to pay a dividend of $3.0 million to PBC, and the shareholders of the Company approve the merger with the Merger Sub.

Please carefully review and consider this proxy statement which explains, among other matters, the mergers in detail, including the discussion under the heading "Risk Factors" beginning on page 10.

This proxy statement is dated September 15, 2017. It is first being mailed to the shareholders of the Company on or about September 20, 2017.

ADDITIONAL INFORMATION

The Company's Annual Report for the year ended December 31, 2016, is available to you without charge through its website, *www.thecornerstonebank.com*, under the "Investor Relations" section or upon request to Mark A. Holmes, President. A copy of the 2016 Annual Report is also included with this proxy statement.

See also "Where You Can Find More Information" on page 76.

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CB FINANCIAL CORPORATION

3710 Nash Street North, Wilson, NC 27896
(252) 243-5588

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held October 30, 2017

NOTICE is hereby given that a special meeting of shareholders of CB Financial Corporation (the "Company") will be held as follows:

Place:	**Operations Center** **Cornerstone Bank** **3105 Nash Street North** **Wilson, North Carolina 27896**
Date:	**October 30, 2017**
Time:	**10:00 o'clock, a.m., local time**

The purposes of the special meeting are:

1. To consider and vote on a proposal to approve the Agreement and Plan of Combination and Reorganization, dated July 31, 2017, by and among the Company, Cornerstone Bank, PB Financial Corporation, PB Acquisition Corp. I and Providence Bank, and the merger of PB Acquisition Corp. I into the Company contemplated thereby. This agreement provides that PB Acquisition Corp. I will merge with and into the Company, upon the terms and subject to the conditions set forth in the agreement, and as more fully described in the accompanying proxy statement. Upon the consummation of this merger, each share of the outstanding common stock of the Company will be converted into the right to receive $0.235 in cash. Thereafter, the Company will merge into PB Financial Corporation and Cornerstone Bank will merge into Providence Bank. A copy of the Agreement and Plan of Combination and Reorganization is attached as Appendix A to the proxy statement.

2. To consider and vote on a proposal to authorize the Company's management to adjourn the special meeting to a later date or dates, if necessary or appropriate, including in order to permit the further solicitation of proxies in the event there are not sufficient votes at the time of the meeting to constitute a quorum or to approve the merger proposal above.

At the special meeting, you may cast one vote for each share of the Company's common stock held of record on September 15, 2017, which is the record date for the meeting.

The Company's Board of Directors recommends that the holders of the Company's common stock vote **"FOR"** the Agreement and Plan of Combination and Reorganization, and vote **"FOR"** authorizing management to adjourn the special meeting as described above. The Company has concluded the Company's shareholders are entitled to assert appraisal rights under Article 13 of the North Carolina Business Corporation Act in connection with the merger of Merger Sub into the Company.

Whether or not you plan to attend the special meeting, we urge you to submit your appointment of proxy as promptly as possible (1) by accessing the Internet website specified on the enclosed proxy card or (2) by completing, signing, and dating the enclosed proxy card and returning it in the postage paid envelope provided. If your shares are held in the name of a broker, bank, or other fiduciary, please follow the instructions on the voting instruction card provided by such person.

By Order of the Board of Directors

Mark A. Holmes
President

September 20, 2017

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Appendices	Description
Appendix A	Agreement and Plan of Combination and Reorganization, dated July 31, 2017, by and among CB Financial Corporation, Cornerstone Bank, PB Financial Corporation, PB Acquisition Corp. I and Providence Bank
Appendix B	Fairness Opinion of Smith Capital, Inc.
Appendix C	Article 13 of the North Carolina Business Corporation Act: Appraisal Rights
Appendix D	CB Financial Corporation 2016 Annual Report

QUESTIONS AND ANSWERS ABOUT THE FIRST STEP MERGER AND THE SPECIAL SHAREHOLDERS' MEETING

The following questions and answers briefly address some commonly asked questions about the First Step Merger and the special shareholders' meeting of the Company. They may not include all the information that is important to shareholders of the Company. We urge shareholders to carefully read this entire proxy statement, including the appendices and the other documents referred to herein.

Q: Why am I receiving these materials?

A: The Company is sending these materials to its shareholders to help them decide how to vote their shares of the Company's common stock with respect to the proposed merger of PB Acquisition Corp. I ("Merger Sub") with and into the Company (the "First Step Merger") pursuant to the Agreement and Plan of Combination and Reorganization, dated July 31, 2017 (the "Merger Agreement"), among the Company, Cornerstone Bank ("Cornerstone"), PB Financial Corporation ("PBC"), Merger Sub and Providence Bank. Pursuant to this First Step Merger, each outstanding share of the Company's common stock will be converted into the right to receive $0.235 in cash. Following the First Step Merger, the Company will merge with and into PB Financial Corporation (the "Holding Company Merger") and Cornerstone will merge with and into Providence Bank (the "Bank Merger"). The Company's shareholders are not required to approve the Holding Company Merger or the Bank Merger.

The First Step Merger cannot be completed unless the shareholders of the Company approve the Merger Agreement, the shareholders of Providence Bank approve a Plan of Reorganization providing for the formation of PBC and the exchange of the outstanding shares of Providence Bank for shares of the common stock of PBC (the "Reorganization"), the completion of an offering of newly issued shares of the common stock of Providence Bank having an aggregate purchase price of $8.0 million (the "Equity Offering"), Providence Bank receives regulatory approval to pay a dividend of $3.0 million to PBC (the "Dividend"), and all other required regulatory approvals of the transactions described in the Merger Agreement are received. Information about the special meeting, the First Step Merger, the Holding Company Merger, the Bank Merger, the Equity Offering and the Dividend are contained in this proxy statement.

Q: Why is the Company proposing the First Step Merger?

A: The Board of Directors of the Company believes that, among other things, the cash merger consideration to be received by the Company's shareholders as a result of the First Step Merger constitutes a better return to the shareholders than would be reasonably obtainable if the Company remained independent. You should review the reasons for the First Step Merger described in greater detail under the captions "Recommendation of the Board of Directors of the Company and Reasons for the First Step Merger" beginning on page 19.

Q: When and where is the shareholder meeting?

A: The special meeting of the Company's shareholders is scheduled to take place on October 30, 2017, at 10:00 o'clock, a.m., local time, at the Operations Center of Cornerstone Bank, 3105 Nash Street North, Wilson, North Carolina 27896.

Q: What am I being asked to vote upon and what does the Company's Board of Directors recommend?

A: You are being asked to vote to approve the Merger Agreement and the First Step Merger, and to approve an adjournment proposal. The Company's Board of Directors has approved and adopted the Merger Agreement and recommends to the Company's shareholders that they vote "***FOR***" the proposal to approve the Merger Agreement and the First Step Merger contemplated thereby, and "***FOR***" the proposal to permit management to adjourn the special meeting.

Q: What will the Company's shareholders receive in exchange for their shares of Company common stock?

A: If the First Step Merger is completed, the Company's shareholders will be entitled to receive, in exchange for each share of Company common stock they hold at the effective time of the First Step Merger, $0.235 in cash.

Q: What are the U.S. federal income tax consequences of the First Step Merger?

A: In general, for United States federal income tax purposes, the cash merger consideration received by the Company's shareholders is expected to be taxable to the extent of any total gain realized as a result of the First Step Merger.

Shareholders are urged to consult their tax advisors for a full understanding of the tax consequences of the First Step Merger to them. Tax matters are complicated and may vary among shareholders based on their individual tax circumstances. See "Material U.S. Federal Income Tax Consequences of the First Step Merger" beginning at page 35.

Q: When will we complete the First Step Merger?

A: We intend to complete the First Step Merger after all required shareholder approvals are received, all regulatory approvals have been obtained, and other conditions to the closing have been satisfied or waived.

The required regulatory approvals are described under "Regulatory Approvals Required for the Reorganization, the Mergers and the Dividend" beginning on page 30.

Q: What should I do now?

A: Mail your signed proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the Company's special meeting. It is important that the proxy card be received as soon as possible and in any event before the special meeting. You can also vote by accessing the Internet website specified on the enclosed proxy card or, generally, by attending the special meeting and voting in person.

If you own your shares in "street name", you are considered the beneficial owner of those shares but not the "holder of record." As the beneficial owner, you have the right to vote and you are also invited to attend the special meeting. However, since you are not the holder of record, you may not vote such shares beneficially held in person at the special meeting unless you obtain a signed proxy from the holder of record giving you the right to vote the shares. For shares held in street name, the beneficial owner's broker or nominee should have enclosed or provided a voting instruction card for such beneficial owners to use to direct the broker or nominee how to vote these shares.

We reserve the right to refuse admittance at the special meeting to anyone without proper proof of share ownership and without proper photo identification.

Q: Should I send in my Company stock certificates now?

A: No. You should **not** send in your Company stock certificates at this time. Once all approvals have been obtained, all conditions to closing have been satisfied and the closing occurs, we will send you instructions for exchanging your Company stock certificates for the merger consideration.

Q: Can I change my vote after I mail my proxy card?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. You can do this in one of three ways:

- First, you can send a written notice stating that you would like to revoke your proxy;
- Second, you can complete and submit a new proxy card bearing a later date; or
- Third, you can attend the special meeting and vote in person. Simply attending the meeting, however, will not revoke your proxy.

If you choose the first or second methods, you must submit your notice of revocation or your new proxy card prior to the special meeting. Your submission must be mailed to David W. Woodard, Corporate Secretary, CB Financial Corporation, 3710 Nash Street North, Wilson, North Carolina 27896.

Q: Who is soliciting proxies?

A: The Board of Directors of the Company is soliciting proxies for the special meeting.

Q: What if I do not vote or I abstain from voting?

A: If you do not vote or abstain from voting, your failure to vote or abstention will count as a vote **"AGAINST"** the Merger Agreement and the First Step Merger. With respect to the proposal for adjournment of the special meeting, your failure to vote or abstention will have no effect on the proposal.

Q: If my shares are held by my broker in "street name," will my broker or other nominee automatically vote my shares for me with respect to the proposals at the special meeting?

A: No. If you hold your shares in a brokerage account or through a brokerage firm, bank or similar nominee, you are considered the beneficial owner of shares held in "street name," and these materials are being forwarded to you by your brokerage firm, bank or similar nominee. Your broker or other nominee cannot vote your shares on the merger proposal without instructions from you. If your shares are held in street name, you should direct your broker or other nominee as to how to vote your shares before the special meeting, following the voting instruction form you received from your broker or other nominee. You should check your voting instruction form to see if any alternative method, such as Internet voting, is available to you. As the beneficial owner, you have the right to direct your broker or other nominee how to vote and you are also invited to attend the special meeting. However, since you are not the holder of record, you may not vote these shares in person at the special meeting unless you obtain a signed appointment of proxy from the holder of record giving you the right to vote your shares.

Q: If my shares are held in "street name" by my broker or other nominee, what happens if I abstain from voting on the merger proposal or fail to instruct my broker?

A: If you abstain from voting or fail to instruct your broker to vote your shares on the merger proposal, *it will have the same effect as a vote* **against** *the Merger Agreement and the First Step Merger because approval of the Merger Agreement requires the affirmative vote of a majority of the shares of the Company's outstanding common stock.*

Your brokerage firm, bank or other similar entity cannot vote on your behalf without specific instructions from you on how to vote. Accordingly, if you hold your shares in "street name," it is critical that you cast your vote. You should follow the directions provided by your brokerage firm, bank or other nominee.

Q: What if I return my proxy card without indicating how to vote?

A: If you sign and send in your proxy card and do not indicate how you want to vote, then your shares of Company common stock will be voted **"FOR"** the Merger Agreement and the First Step Merger, and in favor of the proposal to authorize the Company's management to adjourn the special meeting to a later date or dates, if necessary or appropriate, including to solicit additional proxies to approve the Merger Agreement.

Q: Are Company shareholders entitled to appraisal rights?

A: Yes. Under North Carolina law, holders of Company common stock who perfect their appraisal rights in accordance with applicable law will have appraisal rights, also referred to as dissenters' rights, as a result of the First Step Merger. Failure to follow the applicable procedures summarized in this document and set forth in Article 13 of the North Carolina Business Corporation Act will result in the loss of appraisal rights. See "The Company's Shareholders Have Appraisal Rights" beginning at page 31. Please also see Appendix C for the text of the applicable provisions of the North Carolina Business Corporation Act as in effect with respect to appraisal rights in connection with the First Step Merger.

Q: What are the U.S. federal income tax consequences of exercising my appraisal rights?

A: If you are a holder of Company common stock who perfects your appraisal rights in accordance with applicable law, receives a cash payment with respect to your shares of the Company's common stock, and have held your shares as a capital asset, you generally will recognize capital gain or loss equal to the difference between your tax basis in those shares and the amount of cash you receive in exchange for those shares.

Q. Are there any financing contingencies associated with the First Step Merger?

A. Yes. A condition to the effectiveness of the First Step Merger is Providence Bank's sale of newly issued common stock for an aggregate offering amount of $8.0 million. PBC and Providence Bank will not be in a position to consummate the First Step Merger unless Providence Bank receives the proceeds from this sale of the new equity and thereafter pays a dividend of $3.0 million to PBC.

Q. What happens if the First Step Merger is not completed?

A. If the First Step Merger is not completed, holders of Company common stock will not receive any consideration for their shares in connection with the First Step Merger. Instead, the Company and Cornerstone will remain independent entities and our shareholders will continue to hold their shares of Company common stock.

Q: Who should shareholders call with questions?

A: If you have more questions about the First Step Merger or the proposal to adjourn the special meeting, you should call Mark A. Holmes, President of the Company, at (252) 243-5588, or write to:

CB Financial Corporation
3710 Nash Street North
Wilson, NC 27896
Attn: Mark A. Holmes

SUMMARY

This is a summary of material information regarding the special meeting of the Company's shareholders, the First Step Merger on which the Company's shareholders will vote and the other transactions contemplated in the Merger Agreement. This summary does not contain all of the information that may be important to you, and we urge you to carefully read the entire proxy statement, including the Appendices, before deciding how to vote. Each item in this summary refers to the page of this proxy statement on which that subject is discussed in more detail. We have included page references parenthetically to direct you to a more complete description of the topics presented in this summary.

Except where the context indicates otherwise, references in this proxy statement to the "Company" refer to CB Financial Corporation, references to "Cornerstone" refer to Cornerstone Bank, references to "PBC" refer to PB Financial Corporation, the holding company being formed by Providence Bank, and references to "Merger Sub" refer to PB Acquisition Corp. I, a subsidiary of PBC which will merge into the Company to effect the First Step Merger. Thereafter, the Company will merge into PBC (the "Holding Company Merger") and Cornerstone will merge into Providence Bank (the "Bank Merger"). References to "we," "us" or "our" refer to either the Company or Cornerstone, as the context indicates. References to the "Mergers" refer to the First Step Merger, the Holding Company Merger and the Bank Merger.

The Companies

The Company and Cornerstone
(see page 50)
3710 Nash Street North
Wilson, NC 27896
(252) 243-5588

The Company is a North Carolina corporation with its headquarters in Wilson, North Carolina. Cornerstone is the North Carolina commercial bank subsidiary of the Company. It serves customers in Wilson and Wilson County, North Carolina. Cornerstone provides commercial and retail banking services to individuals, small-to-mid-sized businesses, and professionals. At June 30, 2017, the Company's total assets were $106.8 million, its total deposits were $87.3 million, and its total shareholders' equity was $8.0 million.

PBC and Providence Bank
PB Financial
Providence Bank
450 N. Winstead Avenue
Rocky Mount, NC 27804
(252) 443-9477

PBC is a North Carolina corporation formed to serve as the holding company for Providence Bank. The headquarters of PBC and Providence Bank are located in Rocky Mount, North Carolina. Providence Bank serves the banking needs of individuals and small-to-medium sized businesses in Nash and Edgecombe Counties and surrounding areas. At June 30, 2017, Providence Bank had total assets of $299 million, total deposits of $244 million and total shareholders' equity of $29.6 million. PBC and its subsidiary, PB Acquisition Corp. I, were incorporated after June 30, 2017 and currently have no assets or liabilities.

The Special Meeting

The special meeting of the shareholders of the Company will be held at the Operations Center of Cornerstone Bank, 3105 Nash Street North, Wilson, North Carolina 27896 on October 30, 2017, at 10:00 o'clock, a.m., local time.

At the meeting, the shareholders of the Company will be asked to consider and vote on proposals: (1) to approve the Merger Agreement and the First Step Merger (see page 16); and (2) to authorize management to adjourn the special meeting, if necessary or appropriate, to solicit further proxies for the meeting (see page 17). Approval of the Merger Agreement requires an affirmative vote by the holders of a majority of the outstanding common stock of the Company. Approval of the adjournment proposal requires that the number of votes "FOR" the proposal exceeds the number of votes cast "against" the proposal.

Only holders of Company common stock at the close of business on the record date, September 15, 2017, will be entitled to notice of and to vote at the special meeting. As of September 15, 2017, directors and senior executive officers of the Company and their affiliates beneficially owned approximately 36.2% of the outstanding shares of the Company's common stock. We anticipate that all of these shares will be voted "FOR" approval of the proposals set forth in the Notice of Special Meeting of Shareholders and described herein.

Each share of Company common stock is entitled to one vote on each of the matters presented for consideration at the special meeting. As of September 15, 2017, there were 47,544,924 votes eligible to be cast at the special meeting.

The Merger and Merger Agreement

The Merger Agreement is the legal document that governs the proposed First Step Merger and the other transactions described therein. The Merger Agreement is attached as Appendix A to this proxy statement, and we encourage you to read it carefully.

General
(see page 18)

Subject to satisfaction or waiver of all conditions in the Merger Agreement (including approval by the shareholders of the Company), the Merger Sub will merge with and into the Company, with the Company as the resulting entity of this First Step Merger. At the effective time of the First Step Merger, each share of Company common stock will be converted into the right to receive $0.235 in cash. Immediately following the First Step Merger, the Company will merge with and into PBC and thereafter Cornerstone will merge with and into Providence Bank.

Cash Merger Consideration
(see page 18)

Under the terms of the Merger Agreement, at the effective time of the First Step Merger, each share of the common stock of the Company issued and outstanding immediately before the effective time of the First Step Merger will be converted into the right to receive $0.235 in cash.

Recommendation of the Company's Board and Reasons for the First Step Merger
(see page 19)

In reaching its decision to adopt and approve the Merger Agreement and recommend its approval to the Company's shareholders, the Board of Directors of the Company consulted with senior management and the Company's outside financial and legal advisors and evaluated the Company's prospects for maintaining and improving performance and value for its shareholders over the long term in the current and prospective economic environments. After considering the Company's strategic options, the Board concluded that the merger consideration constitutes a better return to the Company's shareholders than would be reasonably obtainable if the Company remained independent. Accordingly, the Board believes that the proposed First Step Merger is in the best interests of the Company's shareholders.

The Board of Directors unanimously recommends that the Company's shareholders vote "FOR" approval of the Merger Agreement and the First Step Merger.

Smith Capital, Inc. Fairness Opinion
(see page 22)

The Company retained Smith Capital, Inc. ("Smith Capital") to render an opinion as to the fairness of the merger consideration to the Company's shareholders from a financial viewpoint in connection with the First Step Merger. The full text of the written opinion of Smith Capital, dated July 31, 2017, that describes, among other things, the assumptions made, matters considered, and qualifications and limitations on the review undertaken by Smith Capital in connection with its opinion, is attached as Appendix B and is incorporated into

this proxy statement by reference. Smith Capital provided its opinion for the information and assistance of the Company's Board of Directors in connection with the First Step Merger. The Smith Capital opinion is not a recommendation as to how any shareholder of the Company should vote with respect to the First Step Merger.

A discussion of the Smith Capital opinion appears at page 22.

Board and Management following the Mergers

Upon consummation of the First Step Merger and the subsequent Holding Company Merger and Bank Merger, the Board of Directors of the Company will be appointed to serve as the Wilson Advisory Board of Providence Bank.

The executive management team of Providence Bank prior to the Mergers will remain as the executive management team of Providence Bank following the completion of the Mergers.

Interests of the Company Directors and Officers in the First Step Merger
(see page 29)

Some members of the Company's management and its Board of Directors have interests in the First Step Merger that are different from, or in addition to, the interests of the other Company shareholders. The Company's Board of Directors was aware of these interests and considered them in its decision to adopt and approve the Merger Agreement. These interests include (i) potential cash payments due to certain officers of the Company in consideration of their entry into settlement agreements to terminate their current employment and change of control agreements; (ii) the appointment of the Company's directors to the Wilson Advisory Board of Providence Bank; and (iii) the provision of directors' and officers' liability insurance coverage for the Company's officers and Board members for acts or omissions occurring before the First Step Merger, including events that are related to the First Step Merger.

Material Federal Income-Tax Consequences
(see page 35)

The First Step Merger is a taxable transaction. In general, for United States federal income tax purposes, the cash merger consideration received by the Company's shareholders is expected to be taxable to the extent of any total gain realized. A United States shareholder's receipt of the cash merger consideration in exchange for shares of Company common stock generally will be recognized as capital gain or loss in an amount equal to the difference between the amount of cash received and the shareholder's tax basis in each share held.

The federal income tax consequences described above may not apply to all holders of Company common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the First Step Merger to you.

Company Shareholders have Appraisal Rights
(see page 31)

Shareholders of the Company are entitled to exercise appraisal rights with respect to the First Step Merger and, if the First Step Merger is completed and they perfect their appraisal rights, to receive payment in cash for the "fair value" of their shares of Company common stock.

Regulatory Approvals
(see page 30)

We cannot complete the First Step Merger and the Reorganization, Holding Company Merger and the Bank Merger cannot be completed by PBC and Providence Bank unless they are approved by (i) the Board of Governors of the Federal Reserve System (the "Federal Reserve"), (ii) the Federal Deposit Insurance Corporation ("FDIC") and (iii) the North Carolina Commissioner of Banks (the "Commissioner"). Additionally, Providence Bank must obtain regulatory approval of its

payment of a $3.0 million dividend to PBC (the "Dividend"). The required applications and notices for these approvals have not been filed with these banking regulators. As of the date of this proxy statement, neither we, PBC nor Providence Bank have received any of the required approvals. While we do not know of any reason why we would not be able to obtain the necessary approvals in a timely manner, we cannot be certain when or if they will be received.

Conditions to Complete the First Step Merger
(see page 46)

Completion of the First Step Merger depends upon a number of conditions being met, including approval of the Merger Agreement and the First Step Merger by the shareholders of the Company, approval of the Reorganization, the Holding Company Merger and the Bank Merger by the shareholders of Providence Bank, the successful completion of Providence Bank's sale of newly issued common stock for an aggregate purchase price of $8.0 million (the "Equity Offering") and regulatory approval of the Dividend, as well as receipt of other required regulatory approvals.

Where the law permits, each of the Company, Cornerstone and PBC (and Merger Sub and Providence Bank) could elect to waive a condition to its obligation to complete a transaction if that condition has not been satisfied. We cannot be certain when or if the conditions to the transaction will be satisfied or waived or that the transaction will be completed.

Termination of the Merger Agreement
(see page 48)

The Company, Cornerstone and PBC (and Merger Sub and Providence Bank) may agree at any time to terminate the Merger Agreement without completing the Mergers and related transactions, even if the shareholders of the Company and the Merger Sub have already approved the First Step Merger. Also, either the Company and Cornerstone or PBC (and Merger Sub and Providence Bank) may decide, without the consent of the other, not to complete the First Step Merger and related transactions in a number of other situations, including:

- the failure of another party to satisfy its obligations under the Merger Agreement, and
- the failure of any condition to the completion of the First Step Merger to have been satisfied or waived by April 30, 2018, unless the failure of the condition is caused by the terminating party's failing to perform its obligations under the Merger Agreement.

Termination Fees
(see page 49)

The Merger Agreement provides that the Company will pay PBC a termination fee of $475,000 if it terminates the Merger Agreement under certain circumstances, including if the Company breaches its covenant not to solicit competing proposals or fails to recommend that the Company's shareholders approve the Merger Agreement and thereafter engages in an "Alternative Transaction" (as defined in the Merger Agreement).

The Company is also obligated to pay an expense reimbursement of up to $250,000 to Providence Bank under certain circumstances upon a termination of the Merger Agreement.

The Merger Agreement also provides that PBC and Providence Bank will pay the Company a termination fee of $300,000 and reimburse the Company's expenses of up to $250,000 if the Company terminates the Merger Agreement by reason of certain material breaches by PBC and Providence Bank of certain of their representations, warranties, covenants or agreements in the Merger Agreement, if Providence Bank's shareholders do not approve the Reorganization or if Providence Bank does not successfully consummate the Equity Offering.

Company Shareholder Approval Not Required for the Holding Company

Merger, the Bank Merger and the Bank Merger Agreement

Under applicable law, the Company's shareholders are not required to vote upon the Holding Company Merger, Bank Merger Agreement or the Bank Merger.

Market Price and Dividend Information

Shares of the Company's common stock are traded on the OTC-QB. The last trade of the common stock of the Company known to the management of the Company occurred on August 29, 2017 and involved 418 shares at a price of $0.22 per share. The Company does not currently pay dividends on its common stock.

RISK FACTORS

In addition to general investment risks and the other information contained in or incorporated by reference into this proxy statement, including the matters addressed under the heading "Cautionary Statement Regarding Forward-Looking Statements" commencing on page __, the Company's shareholders should carefully consider the following risk factors in deciding how to vote on approval of the Merger Agreement. If the First Step Merger is completed, the Company's shareholders will receive cash for their shares of the Company's common stock and will not become shareholders of PBC.

The opinion obtained by the Company from Smith Capital will not reflect changes in circumstances between the signing the Merger Agreement and the completion of the First Step Merger.

The Company has not obtained an updated opinion as of the date of this proxy statement from Smith Capital. Changes in the operations and prospects of the Company, general market and economic conditions and other factors that may be beyond the control of the Company, and on which the opinion of Smith Capital was based, may significantly alter the value of the Company or the market prices of shares of Company common stock by the time the First Step Merger is completed. The Smith Capital opinion speaks only as of its date July 31, 2017. Because the Company currently does not anticipate asking Smith Capital to update its opinion, the opinion will not address the fairness of the merger consideration, from a financial point of view, at the time the First Step Merger is completed.

For a description of the opinion that the Company received from Smith Capital, see "Opinion of the Company's Financial Advisor" beginning on page 22.

The Merger Agreement limits the Company's ability to pursue alternatives to the First Step Merger.

The Merger Agreement contains provisions that limit the Company's ability to discuss competing third-party proposals to acquire all or a significant part of the Company and/or Cornerstone. In addition, the Company has agreed to pay PBC and Providence Bank a termination fee of $475,000 plus an expense reimbursement of up to $250,000 if the Merger Agreement is terminated because the Company decides to enter into or close another acquisition transaction. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of the Company from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share price than that proposed in the Merger Agreement, or might result in a potential competing acquirer proposing to pay a lower per share price to acquire the Company than it might otherwise have proposed to pay.

The Mergers, the Reorganization and the Dividend are subject to the receipt of consents and approvals from government entities.

Before the First Step Merger may be completed, various approvals or consents must be obtained from the Federal Reserve, the FDIC and the Commissioner, and other governmental or regulatory authorities, with respect to the Reorganization, the Dividend and the Mergers. These governmental entities, including the Federal Reserve, the FDIC or the Commissioner, may impose conditions on the completion of the Reorganization, the Dividend or the Mergers or require changes to the terms of the Reorganization, the Dividend or the Mergers. Although the Company, Cornerstone, PBC and Providence Bank do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the Reorganization, the Dividend or the Mergers.

Neither the Company and Cornerstone nor PBC and Providence Bank is obligated to complete the Reorganization, the Equity Offering, the Dividend or the Mergers if the regulatory approvals received in connection with the completion of the Reorganization, the Dividend or the Mergers include any conditions that either the Company and Cornerstone or PBC and Providence Bank reasonably believe to be materially disadvantageous or burdensome or to so adversely affect the economic or business benefits of the Merger Agreement to render it inadvisable to consummate the Reorganization and the Mergers.

Company directors and executive officers have financial interests in the First Step Merger that are different from, or in addition to, the interests of Company shareholders.

Certain executive officers of the Company negotiated the terms of the Merger Agreement with their counterparts at Providence Bank, and the Company's Board of Directors adopted and approved the Merger Agreement and recommended that the Company's shareholders vote to approve the Merger Agreement on substantially the terms set forth in the Merger Agreement. In considering these facts and the other information contained in this proxy statement, you should be aware that the Company's executive officers and directors have financial interests in the Mergers that are different from, or in addition to, the interests of the Company's shareholders. For example, certain executive officers are expected to enter into agreements with PBC and Providence Bank that provide cash settlement payments to the executives in consideration for the respective executive's agreement to terminate his currently existing employment and change of control agreement. These and some other additional interests of the executive officers and directors of the Company may create potential conflicts of interest and cause some of these persons to view the Mergers differently than you may view them, as a shareholder. See "The Company's Directors and Officers Have Financial Interests in the First Step Merger" beginning on page 29 for information about these financial interests.

PBC's and Providence Bank's ability to consummate the Mergers is subject to receipt of the proceeds from the Equity Offering and the payment of the Dividend.

It is a condition to each of PBC's and Providence Bank's respective obligation to consummate the Mergers that Providence Bank receive at least $8.0 million in aggregate proceeds from the Equity Offering and that it receive regulatory approval to pay the Dividend of $3.0 million to PBC. If the Equity Offering is not successfully closed or the regulatory approval to pay the Dividend is not obtained, PBC and Providence Bank would be unable to consummate the First Step Merger and exchange the cash merger consideration for the outstanding shares of Company common stock.

The Mergers will not be completed unless important conditions are satisfied.

Specified conditions set forth in the Merger Agreement must be satisfied or waived to complete the transactions contemplated by the Merger Agreement. If the conditions are not satisfied or waived, the Mergers (including the First Step Merger) will not occur or will be delayed. The following conditions, in addition to other customary closing conditions (which are described in greater detail beginning on page 46), must be satisfied or, with respect to conditions other than shareholder and regulatory approval, waived, if permissible, before the Company, Cornerstone, PBC, Merger Sub and Providence Bank are obligated to complete the First Step Merger:

- the Merger Agreement must be approved by the holders of a majority of the outstanding shares of the Company's common stock as of the record date of the special meeting;
- the Reorganization must be approved by the holders of a majority of the outstanding shares of the common stock of Providence Bank;

- Providence Bank must successfully close the Equity Offering;
- all required regulatory approvals for the Dividend must be obtained;
- all required regulatory approvals and consents with respect to the Reorganization and the Mergers must be obtained;
- the absence of any law or order by a court or regulatory authority that prohibits, restricts, or makes illegal the Reorganization, the Mergers or the Dividend;
- certain executives of the Company shall have entered into settlement, waiver and release agreements with respect to their existing employment and change of control agreements with the Company and Cornerstone;
- each member of the Board of Directors of the Company shall have entered into a voting agreement and a noncompetition agreement with PBC and Providence Bank; and
- Cornerstone's adversely classified assets may not exceed $5.0 million as of the month end preceding the closing date of the First Step Merger.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement contains a number of forward-looking statements, including statements about the financial conditions, results of operations, earnings outlook and prospects of the Company. You can find many of these statements by looking for words such as "may," "plan," "contemplate," "anticipate," "believe," "intend," "continue," "expect," "project," "potential," "possible," "predict," "estimate," "could," "should," "would," "will," "goal," "target" or other similar expressions.

The forward-looking statements involve certain risks and uncertainties. Factors that may cause actual results or earnings to differ materially from such forward-looking statements include, among others, the following:

- customer and employee relationships and business operations may be disrupted by the pendency of the Mergers;
- the ability to obtain required governmental and shareholder approvals of, and the ability to complete, the Reorganization, the Mergers and the Dividend on the expected timeframe;
- the ability of Providence Bank to successfully complete the Equity Offering and to obtain regulatory approval of the Dividend;
- possible changes in economic and business conditions;
- the existence or exacerbation of general geopolitical instability and uncertainty; and
- other risks and factors identified in this proxy statement under the heading "Risk Factors."

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement.

All written and oral forward-looking statements concerning the Reorganization, Mergers, the Equity Offering, the Dividend or other matters and attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to within this proxy statement. Forward-looking statements speak only as of the date on which such statements are made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

THE SPECIAL MEETING

This section contains information about the special meeting of the Company's shareholders that has been called to consider and approve the Merger Agreement and the First Step Merger, and, if necessary or appropriate, the adjournment of the special meeting to solicit additional proxies. Together with this proxy statement, we are also sending you a notice of special meeting and a form of appointment of proxy that is solicited by the Company's Board of Directors. The special meeting will be held at the Operations Center of Cornerstone Bank, 3105 Nash Street North, Wilson, North Carolina 27896, on October 30, 2017 at 10:00 o'clock, a.m., local time.

Matters To Be Considered

The purposes of the special meeting are:

- to consider and vote upon a proposal to approve the Merger Agreement and the First Step Merger; and
- to consider and vote upon a proposal to authorize the Company's management to adjourn the special meeting to a later date or dates, if necessary or appropriate, including in order to permit the further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to constitute a quorum or to approve the Merger Agreement.

The Company's shareholders are not required to approve the Holding Company Merger or the Bank Merger under applicable law.

Proxies

Each copy of this proxy statement mailed to holders of Company common stock is accompanied by a form of appointment of proxy with instructions for voting. The enclosed proxy with respect to the special meeting is solicited by the Board of Directors of the Company. The Board of Directors has selected Judy A. Muirhead and Robert E. Kirkland, III, or either of them, to act as proxies with full power of substitution.

If you hold common stock of the Company in your name as a shareholder of record, you should submit your proxy (i) by accessing the Internet site provided on your proxy card and following the instructions or (ii) by completing, executing, and returning the proxy card in the enclosed envelope to ensure that your vote is counted at the special meeting, or at any adjournment of the special meeting, regardless of whether you plan to attend the special meeting. If you hold your Company common stock in "street name" through a broker or other nominee, you must direct your broker or nominee to vote in accordance with the instructions you have received from that broker or nominee.

If you hold Company common stock in your name as a shareholder of record, you may revoke any proxy at any time before it is voted by signing and returning a proxy card with a later date, by delivering a written revocation letter to our Corporate Secretary, or by attending the special meeting in person, notifying the Corporate Secretary, and voting by ballot at the special meeting. Any shareholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence of a shareholder at

the special meeting will not constitute revocation of a previously given proxy. Written notices of revocation and other communications about revoking your proxy should be addressed to:

CB Financial Corporation
3710 Nash Street North
Wilson, North Carolina 27896
Attention: David W. Woodard
Phone Number: (252) 243-5588

If your shares are held in "street name" by a broker or other nominee, you should follow the instructions of your broker or nominee regarding the revocation of proxies.

All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card. If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your signed proxy will be voted **"FOR"** approval of the Merger Agreement and the First Step Merger and **"FOR"** approval of the adjournment of the special meeting, if necessary or appropriate, including to solicit additional proxies to approve the Merger Agreement.

At the date hereof, the Company management has no knowledge of any business that will be presented for consideration at the special meeting and that would be required to be set forth in this proxy statement or in the related proxy card, other than the matters set forth in the Notice of Special Meeting of Shareholders of the Company. If any other matter is properly presented at the special meeting for consideration, proxies will be voted in the discretion of the proxy holder on such matter.

Expenses of Solicitation

The Company will bear the cost of preparing, assembling, and mailing this proxy statement. In addition to the use of the mails, appointments of proxy may be solicited in person or by telephone by officers, directors, and employees of the Company or Cornerstone without additional compensation. The Company will reimburse banks, brokers and other custodians, nominees and fiduciaries for their costs in sending the proxy materials to the beneficial owners of Company common stock.

Record Date

The close of business on September 15, 2017 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the special meeting (the "Record Date"). Only shareholders of record on that date will be eligible to vote on the proposals described herein.

Voting Securities

The voting securities of the Company are the shares of its common stock, no value per share, of which 80 million shares are authorized and 47,544,924 shares were outstanding on the Record Date. There are approximately 1,100 holders of record of the Company's common stock.

Quorum and Vote Required

A quorum must be present for business to be conducted at the special meeting. For all matters to be voted on at the meeting, a quorum will consist of a majority of the outstanding shares of Company common stock. Shares represented in person or by proxy at the special meeting will be counted for the purpose of determining whether a quorum exists. Once a share is represented for any

purpose at the special meeting, it will be treated as present for quorum purposes for the remainder of the meeting and for any adjournments. If you return a valid proxy card or attend the special meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain or instruct the proxies to abstain from voting on one or more matters. Broker "nonvotes" also will be counted in determining whether there is a quorum. A broker "nonvote" occurs when a broker or other nominee holding shares for a beneficial owner signs and returns a proxy with respect to shares of common stock held in a fiduciary capacity (typically referred to as being held in "street name") but does not vote on a particular matter because the nominee does not have the discretionary voting power with respect to that matter and has not received instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters but not on non-routine matters. The proposals that the Company's shareholders are being asked to vote on at the special meeting are not considered routine matters and accordingly brokers or other nominees may not vote without instructions. If your shares are represented at the special meeting with respect to any matter voted on, they will be treated as present with respect to all matters voted on, even if they are not voted on all matters.

You may cast one vote for each share of Company common stock you held of record on the record date on each matter brought before the special meeting.

Approval of the Merger Agreement requires the affirmative vote of a majority of all shares of Company common stock entitled to vote at the special meeting.

The proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, requires that the number of votes cast in favor of the proposal exceed the number of votes cast against the proposal at the special meeting.

Directors of the Company, who are entitled to vote approximately 36.2% of Company's outstanding common stock as of the Record Date, are expected to vote for approval of the Merger Agreement and for the adjournment proposal.

SPECIAL MEETING PROPOSALS

Proposal 1: Approval of the Merger Agreement

The Company's shareholders are being asked to approve the Agreement and Plan of Combination and Reorganization, dated as of July 31, 2017, by and among the Company, Cornerstone, PBC, Merger Sub and Providence Bank, pursuant to which Merger Sub will merge with and into the Company, with the Company being the resulting entity of this First Step Merger. Each share of the Company's common stock outstanding upon the effectiveness of the First Step Merger will be converted into the right to receive $0.235 in cash. Following the effectiveness of the First Step Merger, the Company will merge with and into PBC in the Holding Company Merger and Cornerstone will merge with and into Providence Bank in the Bank Merger. The Company's shareholders are **not** required to vote upon the Holding Company Merger or the Bank Merger.

For a detailed discussion of the terms and conditions of the Merger Agreement, see "The Merger Agreement" beginning on page 37.

The approval of the Merger Agreement requires the affirmative vote of the holders of a majority of the shares of Company common stock outstanding and entitled to vote at the special meeting. Failures to vote, abstentions, and broker nonvotes, if any, will have the effect of a vote **"AGAINST"** this proposal.

After careful consideration, the Company's Board of Directors unanimously adopted and approved the Merger Agreement and declared the Merger Agreement and the First Step Merger advisable and in the best interests of the Company and its shareholders. **The Company's Board of Directors unanimously recommends that the shareholders of the Company vote "FOR" approval of the Merger Agreement and the First Step Merger.**

Proposal 2: Adjournment of the Special Meeting

The Company's shareholders are being asked to consider and vote on a proposal to authorize the Company's management to adjourn the special meeting to a later date or dates, if necessary or appropriate, including in order to permit the further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to constitute a quorum or to approve the Merger Agreement proposal.

If, at the special meeting, there is an insufficient number of shares of Company common stock present in person or by proxy to constitute a quorum or to approve the Merger Agreement, the Company may propose to adjourn the special meeting in order to enable the Company's Board of Directors to solicit additional proxies to establish a quorum or to approve the Merger Agreement. The Company does not currently intend to propose adjournment at the special meeting if there are sufficient votes to approve the Merger Agreement.

If the proposal to adjourn the special meeting is submitted to the shareholders for approval, the approval of the proposal requires that the number of votes cast at the special meeting, in person or by proxy, in favor of the proposal exceeds the votes cast against the proposal, whether or not a quorum is present. Failures to vote, abstentions, and broker nonvotes, if any, will not have an effect on this proposal. Approval of this proposal is not a condition to completion of the First Step Merger.

If you vote for this adjournment authority, you will authorize the proxies to vote your shares in favor of one or more adjournments of the special meeting in the event that management believes that an adjournment is necessary or appropriate in order to obtain a quorum, to solicit additional votes needed to approve the First Step Merger, or for any other reason.

The Board of Directors unanimously recommends that the Company's shareholders vote "FOR" the proposal to authorize management to adjourn the special meeting to a later date or dates, if necessary or appropriate, including in order to permit the further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to constitute a quorum or to approve the Merger Agreement.

THE FIRST STEP MERGER OF PB ACQUISITION CORP. I WITH AND INTO CB FINANCIAL CORPORATION

The following discussion describes the material aspects of the merger of PB Acquisition Corp. I with and into CB Financial Corporation. Upon the effectiveness of this First Step Merger, each share of the Company's outstanding common stock will be converted into the right to receive $0.235 in cash. The subsequent Holding Company Merger and Bank Merger are not required to be approved by the Company's shareholders. Since this discussion is a summary, it may not contain all of the information that is important to you to make your decision about the Merger Agreement and the First Step Merger. To understand this transaction fully, and for a more complete description of the applicable legal terms, we encourage you to read this entire proxy statement and the Merger Agreement. A copy of the Merger Agreement is included as Appendix A to this proxy statement.

General

At the special meeting, the Company's shareholders will vote on a proposal to approve the Merger Agreement. At a separate shareholders meeting of Providence Bank, the shareholders of Providence Bank will be asked to approve a Plan of Reorganization. At the effective time of the First Step Merger, the corporate existence of Merger Sub will terminate, the Company will become a subsidiary of PBC, and each share of the Company's outstanding common stock will be converted into the right to receive $0.235 in cash, as further discussed herein.

Background of the First Step Merger

The Company's Board of Directors and management regularly review and discuss the Company's financial condition, performance, prospects and business strategy, in fulfillment of the Board's duties to oversee and direct the management of the Company. As a part of this regular review and discussion, and to enhance shareholder value, our Board periodically considers strategic alternatives and initiatives, such as maintaining the Company as an independent entity, conducting an equity offering to raise capital and enhance liquidity, and entering into a business combination with a similarly-sized or larger financial institution.

During the Spring of 2017, the management of the Company engaged in a series of discussions with Providence Bank and with another bank headquartered in North Carolina about a possible acquisition of the Company. The Company's Board of Directors was kept advised of these discussions. In January of 2017, both Providence Bank and the other bank indicated interest in acquiring the Company and the ranges of value per share of Company common stock they might offer.

The Board of Directors met on January 17, 2017 and considered the indications of interest, and ranges of value per share, expressed by Providence Bank and the other bank. The indication of interest of Providence Bank provided for cash consideration for the Company common stock. The indication of interest from the other bank provided for mixed consideration composed of both cash and shares of its common stock. The Board considered a variety of factors relating to each indication of interest, including the ranges of value indicated, individual director's knowledge and opinions pertaining to the prospects of the other bank and possible market valuations of its stock in the future, the likelihood of the receipts of required regulatory approvals by Providence Bank and the other bank, management's opinions concerning the likelihood of definitive acquisition offers being received for Providence Bank and the other bank, and other relevant matters. The Board directed management to engage in further discussions with Providence Bank and the other bank to obtain additional information about their respective indications of interest and to encourage Providence Bank and the other bank to enhance the values per share they would establish in any definitive acquisition offers.

The Company's management continued its discussions with Providence Bank and the other bank during February, 2017. On February 21, 2017, the Board of Directors met and received the additional information obtained by management. Additionally, management reported that Providence Bank had increased the cash consideration it would offer to acquire the Company's common stock. After extended discussion and receipt of legal advice and counsel, and upon concluding that, in light of the risk associated with the future market performance of the other bank's common stock, the consideration per share of the Company's common stock offered by Providence Bank was superior to that likely to be offered by the other bank, the Board directed management to pursue the receipt of a definitive acquisition proposal from Providence Bank. Management and Providence Bank engaged in such discussions over a period of several months. During the last two weeks of July, the managements of the Company and Providence Bank met and otherwise communicated about the terms and conditions of an acquisition of the Company by Providence Bank. During the last week of July, legal counsel for Providence Bank and the Company negotiated a proposed Merger Agreement.

The Board of Directors met on July 31, 2017 to consider the proposed terms of the Merger Agreement and related transaction documents. Members of the Company's management team and representatives of Smith Capital and the Company's legal counsel were also present. Legal counsel reviewed with the Board the provisions of the Merger Agreement, various agreements proposed to be entered into with the directors of the Company and certain executive officers of the Company and Cornerstone and other related documents. The representative of Smith Capital provided an oral opinion to the Board to the effect that, as of that date and subject to procedures and assumptions set forth in Smith Capital's written confirmation of its opinion also provided at the meeting, the First Step Merger was fair, from a financial point of view, to the Company's shareholders. See "The First Step Merger – Opinion of the Company's Financial Advisor" beginning on page 22 for more information. After considering the proposed Merger Agreement and related transaction agreements and documents, the various presentations by the Company's legal counsel and Smith Capital, and the Board's discussions and evaluations during that meeting and prior meetings of the Board, including those matters discussed in "Recommendations of the Board of Directors and Reasons for the First Step Merger" below, the Company's Board of Directors determined that the First Step Merger pursuant to the Merger Agreement is in the best interests of the Company and its shareholders, and approved, adopted and authorized the execution of the Merger Agreement.

Recommendations of the Board of Directors of the Company and Reasons for the First Step Merger

The Board of Directors of the Company believes that the First Step Merger is fair to and in the best interests of the Company and its shareholders**.**

ACCORDINGLY, THE BOARD OF DIRECTORS HAS ADOPTED AND APPROVED THE MERGER AGREEMENT AND RECOMMENDS THAT THE COMPANY'S SHAREHOLDERS VOTE "FOR" APPROVAL OF THE MERGER AGREEMENT AND THE FIRST STEP MERGER CONTEMPLATED THEREBY.

In reaching its decision to adopt and approve the Merger Agreement and recommend its approval to the Company's shareholders, the Board consulted with senior management and the Company's outside financial and legal advisors, reviewed various financial data and evaluation materials, and made an independent determination that the proposed First Step Merger was in the best interests of the Company and its shareholders. The Board considered a number of positive factors that it believes support its recommendation that the Company's shareholders approve the Merger Agreement, including:

- the Board's understanding of the business, operations, financial condition, asset quality, earnings and prospects of the Company and Cornerstone, including their prospects as independent entities;

- the Board's views and opinions on the current state of the financial services industry, including the current economic environment in the market in which the Company operates, the interest rate environment, and increased competition in that industry;

- the understanding that the cash merger consideration of $0.235 was fixed and would not fluctuate;

- the financial analyses presented by Smith Capital, the Company's financial advisor, and the written opinion of Smith Capital delivered on July 31, 2017, to the effect that, as of the date of such opinion, and based upon and subject to the assumptions, limitations, qualifications and conditions described in Smith Capital's opinion, the cash merger consideration to be received by holders of the Company's common stock in the First Step Merger was fair, from a financial point of view, to such holders, as more fully described below under "The Merger—Opinion of the Company's Financial Advisor" beginning on page ___ and which opinion is included as Appendix B to this proxy statement;

- the effect of the Mergers on Cornerstone's employees, including the prospects for continued employment and the benefits agreed to be provided by Providence Bank to Cornerstone's employees;

- the effect of the Mergers on Cornerstone's customers and the communities in which they conduct business;

- the financial and other terms of the Merger Agreement, including the cash merger consideration, deal protection and termination fee provisions, which the Board reviewed with its outside financial and legal advisors, including:

    - the ability of the Company's Board of Directors, subject to certain conditions, including the payment of a termination fee under certain circumstances, to exercise its fiduciary duties to consider potential superior alternative transactions and to change its recommendation to the Company's shareholders to approve the Merger Agreement;

    - the date in the Merger Agreement by which the First Step Merger must be completed allows for sufficient time to complete the First Step Merger but evidences intent of PBC and Providence Bank to consummate the First Step Merger expeditiously; and

    - the level of effort that PBC and Providence Bank must use under the Merger Agreement to obtain required regulatory approvals, and the prospects for such approvals being obtained in a timely fashion and without the imposition of a burdensome condition of the type described in "The Merger—Regulatory Approvals Required for the Reorganization, the Mergers and the Dividend" on page __;

- the right of the Company's shareholders to assert appraisal rights in connection with the Merger;

- the review by the Board of Directors with its legal advisors of the provisions of the Merger Agreement, including the provisions of the Merger Agreement designed to enhance the probability that the First Step Merger will be completed; and

- the Board of Directors' review and discussions with the Company's management and outside advisors concerning the due diligence examination of the operations, financial condition and regulatory compliance of PBC and Providence Bank.

The Company's Board of Directors also considered a number of potentially negative factors outlined below in its deliberations concerning the Merger Agreement and the First Step Merger, but concluded that the anticipated benefits of the First Step Merger were likely to outweigh substantially these potential negative factors. The potential negative factors included:

- the Company and Cornerstone will no longer exist as independent companies;
- the risk that, while the Company expects that the First Step Merger will be consummated, all conditions to the parties' obligations to complete the Merger Agreement may not be satisfied, including the risk that certain regulatory approvals, the receipt of which are conditions to the consummation of the First Step Merger, might not be obtained, or that a burdensome condition may be imposed in connection with such approval, and, as a result, the First Step Merger may not be consummated;
- the restrictions on the conduct of the Company's and Cornerstone's business prior to the consummation of the First Step Merger, which, subject to specific exceptions, could delay or prevent the Company and Cornerstone from undertaking business opportunities that may arise or any other action they would otherwise take with respect to their operations absent the pending consummation of the First Step Merger;
- the significant risks and costs involved in connection with entering into the Merger Agreement and consummating the First Step Merger, or failing to consummate the First Step Merger in a timely manner, or at all, including as a result of any failure to obtain required regulatory approvals, such as the risks and costs relating to diversion of management and employee attention, potential employee attrition, and the potential adverse effect on business and customer relationships;
- the risk that Providence Bank may not successfully complete the Equity Offering;
- the risk that Providence Bank may not obtain regulatory approval to pay the Dividend;
- the Company would be prohibited from affirmatively soliciting acquisition proposals after execution of the Merger Agreement, and the possibility that the $475,000 termination fee payable by the Company following the termination of the Merger Agreement under certain circumstances could discourage other potential acquirors from making a competing bid to acquire the Company; and
- the possibility of litigation against the Company and/or PBC and Providence Bank in connection with the Mergers.

The foregoing discussion of the factors considered by the Company's Board is not intended to be exhaustive, but is believed to include the material factors considered by the Board. In view of the wide variety of the factors considered in connection with its evaluation of the First Step Merger and the complexity of these matters, the Board did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, the individual members of the Board may have given different weights to different factors. The Company's Board conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, the Company's management and its legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination to recommend

approval of the Merger Agreement. The Board viewed its position as being based on all of the information and the factors presented to and considered by it and ultimately concluded that combining with Providence Bank was in the best interests of the Company's shareholders.

It should be noted that this explanation of the reasoning of the Board and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements" on page 13.

Opinion of the Company's Financial Advisor

Smith Capital delivered to the Board of Directors of the Company its opinion dated July 31, 2017 that, based upon and subject to the various considerations set forth in its written opinion, the cash merger consideration of $0.235 per share of the Company's outstanding common stock was fair to the shareholders of the Company from a financial point of view. In requesting Smith Capital's advice and opinion, no limitations were imposed by the Company upon Smith Capital with respect to the investigations made or procedures followed by it in rendering its opinion. The full text of the opinion of Smith Capital, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Appendix B. The Company's shareholders should read this opinion in its entirety.

Smith Capital is an established investment banking firm and, as part of its investment banking business, it values financial institutions in connection with mergers and acquisitions, private placements and for other purposes. As a specialist in the valuation of securities of financial institutions, Smith Capital has experience in, and knowledge of, banks, thrifts and bank and thrift holding companies. The Company's Board of Directors selected Smith Capital solely to render its opinion as to the fairness of the cash merger consideration to the shareholders of the Company from a financial viewpoint on the basis of the firm's reputation and expertise in transactions such as the First Step Merger.

Smith Capital will receive a fee from the Company for rendering a written opinion to the Company's Board of Directors as to the fairness of the cash merger consideration, from a financial point of view, to the Company's shareholders. No portion of Smith Capital's fee is contingent upon consummation of the First Step Merger. Further, the Company has agreed to indemnify Smith Capital against any claims or liabilities arising out of Smith Capital's engagement by the Company. Smith Capital has not had a material relationship with or received compensation from the Company, Cornerstone, PBC or Providence Bank in the prior two years.

Smith Capital's opinion is directed only to the fairness, from a financial point of view, of the cash merger consideration, and, as such, does not constitute a recommendation to any shareholder of the Company as to how the shareholder should vote at the special meeting. The summary of the opinion of Smith Capital set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

The following is a summary of the analyses performed by Smith Capital in connection with its fairness opinion. Certain analyses were confirmed in a presentation to the Board of Directors of the Company by Smith Capital. The summary set forth below does not purport to be a complete description of either the analyses performed by Smith Capital in rendering its opinion or the presentation delivered by Smith Capital to the Company's Board, but it does summarize all of the material analyses performed and presented by Smith Capital.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances. In arriving at its opinion, Smith Capital did not attribute any particular weight to any

analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Smith Capital may have given various analyses more or less weight than other analyses. Accordingly, Smith Capital believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, without considering all factors, could create an incomplete view of the process underlying the analyses set forth in its presentation to the Company's Board and its fairness opinion.

In performing its analyses, Smith Capital made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Company. The analyses performed by Smith Capital are not necessarily indicative of actual value or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of Smith Capital's analysis of the fairness of the cash merger consideration of $0.235 for each share of the Company's common stock, from a financial point of view, to the Company's shareholders. The analyses do not purport to be an appraisal or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. Smith Capital's opinion does not address the relative merits of the First Step Merger as compared to any other business combination in which the Company might engage. In addition, as described above, Smith Capital's opinion was one of many factors taken into consideration by the Company Board in making its determination to approve the Merger Agreement.

Smith Capital also assumed, with the Company's consent, that (i) each of the parties to the Merger Agreement would comply in all material respects with all material terms and conditions of the Merger Agreement and all related agreements, that all of the representations and warranties contained in such agreement were true and correct in all material respects, that each of the parties to the Merger Agreement would perform in all material respects all of the covenants and other obligations required to be performed by such party under such agreement and that the conditions precedent in such agreement were not and would not be waived, (ii) in the course of obtaining the necessary regulatory or third party approvals, consents and releases with respect to the merger, no delay, limitation, restriction or condition would be imposed that would have an adverse effect on the Company, Providence Bank or the First Step Merger or any related transaction, and (iii) the First Step Merger and any related transaction would be consummated in accordance with the terms of the Merger Agreement without any waiver, modification or amendment of any material term, condition or agreement thereof and in compliance with all applicable laws and other requirements. Finally, with the Company's consent, Smith Capital relied upon the advice that the Company received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the First Step Merger and the other transactions contemplated by the Merger Agreement.

During the course of its engagement, and as a basis for arriving at its opinion, Smith Capital reviewed and analyzed material bearing upon the financial and operating conditions of the Company and material prepared in connection with the First Step Merger, including, among other things, the following:

(i) reviewed the Merger Agreement and terms of the First Step Merger;

(ii) reviewed the audited consolidated financial statements for the Company for the years ended December 31, 2016 and 2015;

(iii) reviewed certain historical publicly available business and financial information concerning the Company including, among other things, quarterly reports filed by it with the FDIC and the Federal Reserve;

(iv) reviewed certain internal financial statements and other financial and operating data concerning the Company;

(v) reviewed recent trading activity and the market for the Company's common stock;

(vi) analyzed certain financial projections prepared by the management of the Company;

(vii) held discussions with members of the senior management of the Company for the purpose of reviewing the future prospects of the Company, including financial forecasts related to its business, earnings, assets and liabilities;

(viii) reviewed the terms of recent merger and acquisition transactions, to the extent publicly available, involving banks and bank holding companies that Smith Capital considered relevant; and

(ix) performed such other analyses and considered such other factors as Smith Capital deemed appropriate.

Smith Capital also took into account its assessment of general economic, market and financial conditions and its experience in other transactions as well as its knowledge of the banking industry and its general experience in securities valuation.

In rendering its opinion, Smith Capital have assumed and relied on, without independent verification, the accuracy and completeness of the financial and other information and representations contained in the materials provided to it by the Company. In that regard, Smith Capital assumed that the financial forecasts have been reasonably prepared on a basis reflecting the best currently available information and judgments and estimates of the Company, Smith Capital is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect thereto and have assumed that such allowances for Cornerstone are in the aggregate adequate to cover such losses. Smith Capital was not retained to and did not conduct a physical inspection of any of the properties or facilities of the Company. In addition, Smith Capital did not review individual credit files nor did it make an independent evaluation or appraisal of the assets and liabilities of the Company or any of its subsidiaries and it was not furnished with any such evaluations or appraisals.

The following is a summary of the material financial analyses performed in connection with Smith Capital's opinion rendered to the Company's Board on July 31, 2017. No company or transaction used in the analyses described below is identical or directly comparable to the Company or the proposed transaction. The analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables without considering the full narrative description of the analyses, as well as the methodologies underlying, and the assumptions, qualifications, limitations affecting, each analysis, could create a misleading or incomplete view of Smith Capital's analysis.

Summary of Proposed Merger Consideration and Implied Transaction Metrics

Smith Capital reviewed the financial terms of the proposed First Step Merger. Under the terms of the Merger Agreement, at the effective time of the First Step Merger, each share of the common stock of the Company issued and outstanding immediately before the effective time of the First Step Merger will be converted into the right to receive $0.235 in cash. Based upon financial information for the Company as or for the twelve months ended June 30, 2017, Smith Capital calculated the following implied transaction metrics:

Transaction Multiples- Aggregate Price	
Tangible Equity	140.09%
Assets	10.46%
LTM Net Income Reported	64.58
LTM Net Income Normalized for Tax	23.72
Tangible Premium/Core Deposits	3.90%

Comparable Transaction Analysis

Smith Capital analyzed publicly available financial information related to 17 selected business combinations where the target bank was headquartered in Florida, North Carolina, South Carolina, Georgia, Tennessee or Virginia and had total assets between $50 and $300 million, and where the transaction was announced after January 1, 2016. Mergers of equals and mergers involving subchapter S banks were excluded.

The 17 selected transactions used in this analysis are shown below:

Buyer Name/Target Name	Deal Announcement Date	Target State
First Bancshares, Inc./ Gulf Coast Community Bank	10/14/2016	FL
Stonegate Bank/ Insignia Bank	8/24/2016	FL
National Commerce Corporation/ Patriot Bank	4/24/2017	FL
Seacoast Banking Corporation of Florida/ NorthStar Banking Corporation	5/18/2017	FL
HCBF Holding Company, Inc./ Jefferson Bankshares, Inc.	1/20/2017	FL
First Community Corporation/ Cornerstone Bancorp	4/12/2017	SC
Blue Ridge Bankshares, Inc./ River Bancorp, Inc.	3/31/2016	VA
Select Bancorp, Inc./ Premara Financial, Inc.	7/21/2017	NC
West Town Bancorp, Inc./ Sound Banking Company	2/17/2017	NC
Carolina Financial Corporation/ Congaree Bancshares, Inc.	1/6/2016	SC
State Bank Financial Corporation/ S Bankshares, Inc.	5/19/2016	GA
Entegra Financial Corp./ Chattahoochee Bank of Georgia	6/27/2017	GA
Drummond Banking Company/ Nature Coast Bank	7/25/2016	FL
Pinnacle Financial Corporation/ Independence Bank of Georgia	7/1/2016	GA
Sequatchie Valley Bancshares, Inc./ Franklin County UNITED Bancshares, Inc.	2/18/2016	TN
Citco Community Bancshares, Inc./ American Trust Bank of East Tennessee	7/22/2016	TN
Summit Financial Group, Inc./ Highland County Bankshares, Inc.	2/29/2016	VA

Smith Capital reviewed financial data for each transaction including the multiples of transaction value to the targets' total assets, tangible equity, last twelve months earnings and the premium to core deposits. Smith Capital applied the median, 25th percentile, and 75th percentile multiples in the selected transactions to the Company's corresponding financial metrics as of June 30, 2017 to determine the implied equity value per share of Company common stock based on those selected multiples, and then compared the implied equity value per share of Company common stock to the per share merger consideration. Smith Capital analyzed the transaction multiples based on all the selected companies, those transactions where the consideration was all cash, and where the transactions were announced since the presidential general election in November 2016.

The results of the selected transaction analysis are shown below (dollars in thousands, except per share data):

	Company Data $000's as of or for 12 months ended June 30, 2017	Selected Transactions Multiple 25th Percentile	Selected Transactions Multiple Median	Selected Transactions Multiple 75th Percentile	Company Implied Equity Value Per Share 25th Percentile	Company Implied Equity Value Per Share Median	Company Implied Equity Value Per Share 75th Percentile	Per Share Merger Consideration
Tangible Book Value	$7,976	108.09%	136.04%	152.63%	$0.181	$0.228	$0.256	$0.235
LTM Earnings	$471	22.42	27.47	34.03	$0.222	$0.272	$0.337	$0.235
LTM Earnings Reported	$173	22.42	27.47	34.03	$0.082	$0.100	$0.124	$0.235
Assets	$106,826	12.37	14.03	16.07	$0.278	$0.315	$0.361	$0.235
Core Deposits Premium	$81,945	0.22%	4.38%	6.15%	$0.172	$0.243	$0.274	$0.235
Tangible Book Value	$7,976	100.22%	111.07%	126.13%	$0.168	$0.186	$0.212	$0.235
LTM Earnings	$471	16.83	23.88	30.64	$0.167	$0.237	$0.304	$0.235
LTM Earnings Reported	$173	16.83	23.88	30.64	$0.061	$0.087	$0.111	$0.235
Assets	$106,826	12.43	14.04	16.07	$0.279	$0.315	$0.361	$0.235
Core Deposits Premium	$81,945	0.03%	1.76%	4.38%	$0.168	$0.198	$0.243	$0.235
Tangible Book Value	$7,976	139%	154.32%	163.34%	$0.234	$0.259	$0.274	$0.235
LTM Earnings	$471	23.15	25.02	36.51	$0.229	$0.248	$0.362	$0.235
LTM Earnings Reported	$173	23.15	25.02	36.51	$0.084	$0.091	$0.133	$0.235
Assets	$106,826	13.77	15.24	17.33	$0.309	$0.342	$0.389	$0.235
Core Deposits Premium	$8,1945	4.89%	6.92%	7.82%	$0.252	$0.287	$0.302	$0.235

Dividend Discount Analysis

Smith Capital calculated the discounted present value of the Company's projected cash flows for each of the twelve month periods beginning June 30, 2017 and ending June 30, 2022 on a standalone basis. Excess cash flows were calculated and discounted assuming the Company maintained a tangible equity/assets ratio of 8%. The analysis was based on financial forecasts prepared by the Company's management.

Smith Capital applied price to tangible book multiples ranging from 0.93x to 1.4x to the Company's tangible book value at June 30, 2022 and price to last twelve months earnings ranging from 14.24x to 24x to the Company's projected earnings for the twelve months ended June 30, 2022 in order to determine a range of terminal values at June 30, 2022. The projected cash flows were discounted at rates ranging from 13.5% to 15.5%, which reflected the cost of capital using a risk-free rate, a market risk premium adjusted by beta and a size premium. Smith Capital reviewed the range of implied equity values derived from the dividend discount approach and compared them to the merger consideration. The results are summarized below:

	Implied Equity Value at June 30, 2017			
	Per Share Merger Consideration	Implied Equity Value Per Share Minimum	Implied Equity Value Per Share Median	Implied Equity Value Per Share Maximum
Terminal Value Based on Tangible Book Value Multiple	$0.235	$0.122	$0.146	$0.185
Terminal Value Based on Price/Earnings Multiple	$0.235	$0.171	$0.211	$0.295

Comparable Company Analysis

Smith Capital used publicly available information to compare selected financial information for the Company with a group of financial institutions selected by Smith Capital. The Company's peer group consisted of commercial banks and thrifts headquartered in North Carolina, and South Carolina and Virginia whose securities are publicly traded and with assets between $50 million and $300 million, as of the most recently available quarter. Except as described above, no specific numeric or other similar criteria were used to select the companies, and all criteria were evaluated in their entirety without application of definitive qualifications or limitations to individual criteria. The Company peer group consisted of the following companies:

AB&T Financial Corporation	NC
Bank of Fincastle	VA
Bank of McKenney	VA
BlueHarbor Bank	NC
Farmers Bank of Appomattox	VA
First Capital Bancshares, Inc.	NC
First Federal of South Carolina, FSB (MHC)	SC
Great State Bank	NC
Independence Bancshares, Inc.	SC
M&F Bancorp, Inc.	NC
Oak View National Bank	VA
Peoples Bankshares, Incorporated	VA
Pioneer Bankshares, Inc.	VA
Surrey Bancorp	NC
Virginia Bank Bankshares, Incorporated	VA
Wake Forest Bancshares, Inc. (MHC)	NC
West Town Bancorp, Inc.	NC

The analysis compared publicly available financial information for the Company with the corresponding data for the Company's peer group as of or for the twelve months ended June 30, 2017 or March 31, 2017 if June 30 data was not available. Pricing data is as of July 27, 2017. The table below sets forth the data for the Company and the median and 25th and 75th percentiles for the Company's peer group (dollars in thousands, except per share data):

	Company	Company Peer Group Median	25th Percentile	75th Percentile
Assets	$106,826	$197,541	$132,810	$230,916
Price/Tangible Book	178.83	93.41	86.98	114.28
Price/LTM Earnings Per Share	NM	17.44	13.43	19.10
LTM Return on Average Assets	0.71%	0.77%	0.53%	0.89%
LTM Return on Average Equity	2.22%	6.86%	4.33%	8.04%
LTM Efficiency Ratio	81.89%	76.35%	71.02%	85.66%
LTM Net Interest Margin	3.41%	3.81%	3.69%	4.15%
Tangible Common Equity/Assets	11.13%	10.26%	7.95%	12.37%
Non Performing Assets/ Total Assets (1)	2.10%	0.78%	0.60%	2.03%
LTM Net Charge Offs/Average Loans	0.20%	0.22%	0.05%	0.47%

(1) Non-performing assets equal nonaccrual loans and leases, real estate owned. Restructured loans are excluded.

Smith Capital applied the median, 25th and 75th percentile multiples of the Company's peer group to the Company's corresponding financial metrics as of June 30, 2017 to determine the implied equity value per share of the Company based on those selected multiples, and then compared the implied equity values per share to the per share merger consideration as shown below:

	Company Date $000's as of or for 12 months ended June 30, 2017	Peer Group 25th Percentile	Peer Group Median	Peer Group 75th Percentile	Implied Company Per Share Value 25th Percentile	Implied Company Per Share Value Median	Implied Company Per Share Value 75th Percentile	Merger Consideration
Tangible Book Value	$7,976	86.98	93.41	114.28	$0.146	$0.157	$0.192	$0.235
LTM Earnings (1)	$471	13.43	17.44	19.11	$0.133	$0.173	$0.189	$0.235
Reported LTM Net Income	$173	13.43	17.44	19.11	$0.049	$0.063	$0.070	$0.235

(1) LTM earnings calculated using a normalized tax rate of 31% for the last 12 months, versus reported LTM net income which includes a fourth quarter 2016 tax charge of $337,000 or 281%.

Proforma Merger Analysis

Smith Capital analyzed the proforma effects of the First Step Merger on Providence Bank's capital ratios at closing based on the following assumptions provided by Providence Bank; 1) a per share cash purchase price of $0.235; 2) an aggregate purchase price of $11.1 million cash; 3) after tax expenses of $1.1 million; 4) the reversal of Cornerstone's allowance for loan losses; 5) a fair value adjustment to Cornerstone's assets and liabilities as follows: loans -$2.1 million; other real estate

owned - $0.393 million; core deposit intangible - $0.827 million; Trust Preferred Securities - $1.3 million; deferred tax asset -$0.194 million; and deferred tax liability - $0.281 million; 6) a capital infusion of $2.97 million. The analysis indicated that Providence Bank would remain well capitalized at closing of the First Step Merger.

The Company's Directors and Officers Have Financial Interests in the First Step Merger

In considering the recommendation of the Company's Board that the shareholders of the Company vote to approve the First Step Merger on substantially the terms set forth in the Merger Agreement, the shareholders should be aware that some of the Company's directors and executive officers have interests in the First Step Merger and have arrangements that are different from, or are in addition to, those of the Company's shareholders generally. The Board was aware of these interests and considered them, among other matters, in reaching its decisions to approve and adopt the Merger Agreement and to recommend that the Company's shareholders vote in favor of approving the Merger Agreement.

Share Ownership. As of the Record Date, the directors and senior executive officers of the Company may be deemed to be the beneficial owners of 17,210,724 shares, representing 36.2% of the outstanding shares of the Company's common stock. See "Beneficial Ownership of Company Common Stock" beginning on page 51.

Settlement Payments to Executive Officers. The Company's executive officers, Mark A. Holmes (President and Chief Financial Officer) and Christopher O. Robbins (Chief Executive Officer), are parties to employment and change of control agreements with the Company and Cornerstone. In connection with the First Step Merger, Messrs. Holmes and Robbins are required to enter into settlement, waiver and release agreements that terminate all obligations under these agreements and waive any claims associated with such agreements that the executive officer may have. As consideration for the termination of these agreements and waiver of any such claims, Messrs. Holmes and Robbins will receive settlement payments of approximately $265,000 and $440,000, respectively, which amounts are approximately equivalent to the change in control payment that each executive officer otherwise would have been due under his respective agreement assuming a "change in control" (as defined in the agreements) had occurred and, following such change in control, the officer's employment was terminated without cause. Subject to execution of the settlement, waiver and release agreements by Messrs. Holmes and Robbins, the cash settlements will be paid by Cornerstone immediately prior to the closing of the First Step Merger.

Advisory Board Seats. Effective upon completion of the Mergers, Providence Bank will appoint the directors of the Company to Providence Bank's Wilson Advisory Board. Each will serve a term of two years and receive a fee of $250 for each quarterly meeting of the Advisory Board attended.

Director Support Agreements. As an inducement to and a condition of the willingness of PBC and Providence Bank to enter into the Merger Agreement, such parties required each director of the Company to enter into a support agreement with them. Pursuant to the support agreements, each of the directors of the Company agreed, among other things, to vote (or cause to be voted), all the shares owned beneficially by each of them, (i) in favor of the approval of the First Step Merger and the Merger Agreement and (ii) against any proposal or agreement that would compete with or impede the adoption and approval of the Merger Agreement. As of the Record Date, the directors of the Company beneficially owned an aggregate of 17,201,724 shares, or approximately 36.2% of the outstanding shares of Company common stock.

Company Director and Officer Indemnification and Insurance. PBC and Providence have agreed to indemnify and hold harmless the directors and officers of the Company and Cornerstone

following the First Step Merger against certain liabilities arising from their acts or omissions before the First Step Merger, including matters related to the First Step Merger. PBC and Providence Bank have also agreed to provide directors' and officers' liability insurance for the directors and officers of the Company for a period of six years following the Mergers with respect to acts or omissions occurring before the First Step Merger that were committed by such directors and officers in their capacities as such.

Regulatory Approvals Required for the Reorganization, the Mergers and the Dividend

Depository institutions and their holding companies, such as the Company, Cornerstone, PBC and Providence Bank, are highly regulated institutions, with numerous federal and state laws and regulations governing their activities. These institutions are subject to ongoing supervision, regulation and periodic examination by various federal and state financial institution regulatory agencies. For a summary of this ongoing regulatory oversight and applicable laws and regulations, see "Supervision and Regulation" beginning on page 65. This summary is qualified in its entirety by the text of the laws and regulations, which are subject to change based on possible future legislation and action by regulatory agencies. To the extent that the following information describes statutes and regulations, it is qualified in its entirety by reference to those particular statutes and regulations.

Although the Company's shareholders are required to approve only the First Step Merger, the Reorganization, the Holding Company Merger, the Bank Merger and the Dividend must also receive regulatory approvals in order for the First Step Merger to be consummated.

The Plan of Reorganization to be submitted for approval to the shareholders of Providence Bank in a special shareholders meeting provides for the exchange of the outstanding shares of Providence Bank for shares of PBC. In addition, PBC and Providence Bank must successfully complete the following events and transactions:

- the formation of PBC to serve as the bank holding company for Providence Bank;
- the formation of the Merger Sub, PB Acquisition Corp. I, as a subsidiary of PBC for the purpose of effecting the First Step Merger with the Company;
- the successful completion of the Equity Offering, the sale of newly issued shares of Providence Bank for an aggregate purchase price of $8.0 million;
- the payment of the Dividend to PBC, a dividend of approximately $3.0 million from Providence Bank to PBC;
- the First Step Merger of Merger Sub with and into the Company pursuant to which each share of Company common stock will be converted into the right to receive $0.235 in cash;
- the Holding Company Merger, the merger of the Company with and into PBC; and
- the Bank Merger, the merger of Cornerstone with and into Providence Bank.

Upon completion of these transactions, PBC will be a banking holding company and its bank subsidiary will be Providence Bank.

The formation of PBC and Merger Sub, the exchange of the outstanding shares of Providence Bank for shares of PBC, the First Step Merger and the Holding Company Merger are subject to approval by the Federal Reserve and the Commissioner. In addition, the Dividend to PBC is subject to approvals by the FDIC and the Commissioner.

Accounting Treatment

The Mergers will be accounted for under the acquisition method of accounting within GAAP. Under the acquisition method of accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of the Company and Cornerstone, respectively, as of the effectiveness the Mergers will be recorded at their respective fair values and added to those of PBC and Providence Bank, respectively. Any excess of purchase price over the fair values of assets acquired and liabilities assumed will be recorded as goodwill. Financial statements of PBC and Providence Bank issued after the Mergers will reflect these fair values and will not be restated retroactively to reflect the historical financial position or results of operations of the Company or Cornerstone before the effective time of the Mergers.

The Company's Shareholders Have Appraisal Rights

Holders of the common stock of the Company who are entitled to vote on the First Step Merger have a right to demand payment in cash of the "fair value" of their shares of Company common stock. Article 13 of the North Carolina Business Corporation Act ("NCBCA") sets forth the rights of the Company's shareholders who wish to demand fair value payment for their shares. The following is a summary of the material terms of the statutory procedures to be followed by a holder of the Company's common stock in order to perfect appraisal rights under the NCBCA. Shareholders who do not properly follow appraisal rights procedures will receive the cash merger consideration of $0.235 per share if the First Step Merger is effected. A copy of Article 13 of the NCBCA is attached as Appendix C to this proxy statement, and shareholders of the Company desiring to assert appraisal rights are encouraged to read it in its entirety.

Requirements of Appraisal Rights

If a Company shareholder elects to exercise the right to demand appraisal, such shareholder must satisfy all of the following conditions:

- The shareholder must be entitled to vote on the First Step Merger.

- The shareholder must deliver to the Company, before the vote on approval or disapproval of the Merger Agreement is taken, written notice of the shareholder's intent to demand payment if the First Step Merger is completed. This notice must be in addition to and separate from any proxy or vote against the First Step Merger. Neither voting against, abstaining from voting, nor failing to vote on the First Step Merger will constitute a notice within the meaning of Article 13.

- The shareholder must not vote, or cause or permit to be voted, any shares in favor of the First Step Merger. A failure to vote will satisfy this requirement, as will a vote against the First Step Merger, but a vote in favor of the First Step Merger, by proxy or in person, or the return of a signed proxy which does not specify a vote against approval of the First Step Merger or contain a direction to abstain, will constitute a waiver of the shareholder's appraisal rights.

If the requirements above are not satisfied and the First Step Merger is completed, a Company shareholder will not be entitled to payment for such shareholder's shares under the provisions of Article 13.

Required Notice to the Company

Written notices of intent to demand payment should be addressed to Mark A. Holmes, CB Financial Corporation, 3710 Nash Street North, Wilson, North Carolina 27896. The notice must be executed by the holder of record of shares of the Company's common stock. A beneficial owner may assert appraisal rights only with respect to all shares of the Company's common stock of which it is the beneficial owner. With respect to shares of the Company's common stock which are owned of record by a voting trust or nominee, the beneficial owner of such shares may exercise appraisal rights only if such beneficial owner also submits to the Company the record holder's written consent to such exercise not later than the Demand Deadline (as defined below). A record holder, such as a broker, who holds shares of the Company's common stock as a nominee for others, may exercise appraisal rights with respect to the shares held by all or less than all beneficial owners of shares as to which such person is the record holder, provided such record holder exercises appraisal rights with respect to all shares beneficially owned by any particular beneficial shareholder. In such case, the notice submitted by such nominee as record holder must set forth the name and address of the beneficial shareholder who is demanding payment.

Appraisal Notice from the Company

If the First Step Merger is completed, the Company will be required to deliver a written appraisal notice and form to all shareholders who have satisfied the requirements described under the heading "Requirements of Appraisal Rights" above. The appraisal notice and form must be sent no earlier than the effective date of the Merger and no later than ten days after the Merger's effective date. The appraisal notice and form must:

- Identify the first date of any announcement of the principal terms of the First Step Merger to the shareholders. If such an announcement was made, the form must require the shareholder to certify whether beneficial ownership of the shares was acquired before that date. For more information regarding this requirement, see "After-Acquired Shares" below.

- Require the shareholder to certify that the shareholder did not vote for or consent to the First Step Merger.

- State where the appraisal form is to be returned, where certificates for shares must be deposited, and the date by which such certificates must be deposited.

- State a date by which the Company must receive the appraisal form from the shareholder (the "Demand Deadline"). The date may not be fewer than 40 or more than 60 days after the date the appraisal notice and form are sent.

- State that if the appraisal form is not received by the Company by the Demand Deadline, the shareholder will be deemed to have waived the right to demand appraisal.

- State the Company's estimate of the fair value of the shares.

- Disclose that, if requested in writing by the shareholder, the Company will disclose within ten days after the Demand Deadline the number of shareholders who have returned their appraisal forms and the total number of shares owned by them.

- Establish a date within 20 days of the Demand Deadline by which shareholders can withdraw the request for appraisal.

- Include a copy of Article 13 of the NCBCA.

A shareholder who receives an appraisal notice from the Company must demand payment by completing, signing and returning the appraisal form included with the notice and, in the case of certificated shares, deposit his, her, or its share certificates in accordance with the terms of the appraisal notice. Shareholders should respond to the appraisal form's request discussed above regarding when beneficial ownership of the shares was acquired. A failure to provide this certification allows the Company to treat the shares as "after-acquired shares" subject to the Company's authority to delay payment as described under the heading "After-Acquired Shares" below. Once a shareholder deposits his, her, or its certificates or, in the case of uncertificated shares, returns the signed appraisal form, the shareholder loses all rights as a shareholder unless a timely withdrawal occurs as described below. A shareholder who does not sign and return the appraisal form and, in the case of certificated shares, fails to deposit the shares, is not entitled to payment under Article 13.

A shareholder who has complied with all the steps required for appraisal may thereafter decline to exercise appraisal rights and withdraw from the appraisal process by notifying the Company in writing. The appraisal notice will include a date by which the withdrawal notice must be received. Following this date, a shareholder may only withdraw from the appraisal process with the Company's consent.

The Company's Payment to Shareholders Demanding Appraisal

Within 30 days after the Demand Deadline, the Company is required to pay each shareholder the amount that the Company estimates to be the fair value of such shareholder's shares, plus interest accrued from the effective date of the First Step Merger to the date of payment. The payment must be accompanied by the following:

- the Company's most recently available balance sheet, income statement, and statement of cash flows as of the end of or for the fiscal year ending not more than 16 months before the date of payment, and the latest available quarterly financial statements, if any;

- a statement of the Company's estimate of the fair value of the shares, which must equal or exceed the Company's estimate in the earlier-circulated appraisal notice; and

- a statement that the shareholder has the right to submit a final payment demand as described below and that the shareholder will lose the right to submit a final payment demand if he or she does not act within the specified time frame.

Final Payment Demand by Shareholders

A shareholder who is dissatisfied with the amount of the payment received from the Company may notify the Company in writing of such shareholder's own estimate of the fair value of the shares and the amount of interest due, and demand payment of the excess of this estimate over the amount previously paid by the Company. A shareholder who does not submit a final payment demand within 30 days after receiving the Company's payment is only entitled to the amount previously paid.

After-Acquired Shares

The Company may withhold payment with respect to any shares which a shareholder failed to certify on the appraisal form as being beneficially owned prior to the date stated in the appraisal notice as the date on which the principal terms of the Merger were first announced. If the Company withholds payment, it must, within 30 days after the Demand Deadline, provide affected shareholders with the Company's most recently available balance sheet, income statement, and statement of cash flows as of the end of or for the fiscal year ending not more than 16 months before the date of payment, and the latest available quarterly financial statements, if any. The Company must also inform such shareholders that they may accept the Company's estimate of the fair value of their shares, plus interest, in full satisfaction of their claim or submit a final payment demand. Shareholders who wish to accept the offer must notify the Company of their acceptance within thirty days after receiving the offer. The Company must send payment to such shareholders within ten days after receiving their acceptance. Shareholders who are dissatisfied with the offer must reject the offer and demand payment of the shareholder's own estimate of the fair value of the shares, plus interest. If a shareholder does not explicitly accept or reject the Company's offer, he will be deemed to have accepted the offer. The Company must send payment to these shareholders within 40 days after sending the notice regarding withholding of payment.

Judicial Appraisal of Shares

If the Company does not pay the amount demanded pursuant to a shareholder's final payment demand, the Company must commence a proceeding in the North Carolina Superior Court within 60 days after receiving the final demand. The purpose of the proceeding is to determine the fair value of the shares and the interest due. If the Company does not commence the proceeding within the 60-day period, it must pay each shareholder demanding appraisal the amount demanded, plus interest.

All shareholders whose payment demands remain unsettled will be parties to the action. The proceeding is against the shareholders' shares and not against shareholders personally. There is no right to a jury trial. Each shareholder who is a party to the proceeding will be entitled to judgment for the amount, if any, by which the court finds the fair value of the shareholder's shares, plus interest, exceeds the amount paid by the Company to the shareholder for the shares.

The court will determine all court costs of the proceeding and will assess the costs against the Company, except that the court may assess costs against some or all of the shareholders demanding appraisal, in amounts the court finds equitable, to the extent the court finds such shareholders acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by Article 13. The court may also assess expenses (including legal fees) for the respective parties, in the amounts the court finds equitable: (1) against the Company if the court finds that it did not substantially comply with Article 13 or (2) against the Company or the shareholder demanding appraisal, if the court finds that the party against whom expenses are assessed acted arbitrarily, vexatiously, or not in good faith. If the court finds that the expenses incurred by any shareholder were of substantial benefit to other shareholders similarly situated and that the expenses should not be assessed against the Company, it may direct that the expenses be paid out of the amounts awarded to the shareholders who were benefited.

If the Company fails to make a required payment to a shareholder under Article 13, the shareholder entitled to payment can commence an action against the Company directly for the amount owed and recover the expenses of that action.

THE SUMMARY SET FORTH ABOVE DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE PROVISIONS OF ARTICLE 13 OF THE NCBCA RELATING TO THE RIGHTS OF SHAREHOLDERS DEMANDING APPRAISAL AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE APPLICABLE SECTIONS OF THE NCBCA, WHICH ARE INCLUDED AS APPENDIX C TO THIS PROXY STATEMENT. SHAREHOLDERS INTENDING TO EXERCISE APPRAISAL RIGHTS ARE URGED TO REVIEW APPENDIX C CAREFULLY AND TO CONSULT WITH LEGAL COUNSEL SO AS TO BE IN STRICT COMPLIANCE THEREWITH.

Material U.S. Federal Income Tax Consequences of the First Step Merger

The following summary describes the understanding of the Company's Board of Directors regarding the anticipated material U.S. federal income tax consequences of the First Step Merger to U.S. holders (as defined below) of Company Stock. This summary addresses only those Company shareholders that are U.S. holders holding their stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and it does not address all aspects of U.S. federal income taxation that may be relevant to all holders of Company common stock in light of their particular circumstances, or holders who are subject to special rules. Also, tax considerations under state, local and foreign laws, or federal laws other than those pertaining to income tax, or federal laws applicable to alternative minimum taxes, are not addressed in this summary. ***The Company has not obtained a tax opinion, or any ruling from the Internal Revenue Service, with respect to the tax effects of the First Step Merger on shareholders. As a result, shareholders should consult with their own tax advisors regarding the tax consequences of the First Step Merger to them personally.***

This discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this proxy statement and all of which are subject to change, possibly with retroactive effect. For purposes of this discussion, a "U.S. holder" is a beneficial owner of Company common stock that is, for U.S. federal income tax purposes (i) an individual citizen or resident of the United States; (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust that (a) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person. For purposes of this summary, a "non-U.S. holder" is a beneficial holder of Company common stock that is for U.S. federal income tax purposes a nonresidential alien individual, a foreign corporation, or a foreign estate or trust.

Tax Consequences for U.S. Holders. A U.S. holder's receipt of the cash merger consideration in exchange for Company common stock in the First Step Merger will be a taxable transaction for U.S. federal income tax purposes. Accordingly, a U.S. holder generally will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between (i) the amount of cash received by such holder in the First Step Merger for, and (ii) the holder's tax basis in, each share of Company common stock owned by the holder immediately prior the effective time of the First Step Merger.

Any such gain or loss generally will be long-term capital gain or loss if the U.S. holder's holding period in the shares of Company common stock immediately prior to the effective time of the First Step Merger is more than one year. The amount and character of gain or loss must be calculated separately for each identifiable block of shares (generally, shares purchased at the same time in the same transaction) of Company common stock surrendered. For U.S. holders that are individuals,

estates or trusts, long-term capital gain generally is taxed at preferential rates. The deductibility of capital losses is subject to certain limitations.

Taxation of Capital Gain

Any gain that U.S. holders of Company common stock recognize in connection with the First Step Merger generally will constitute capital gain and will constitute long-term capital gain for U.S. holders who have held (or are treated as having held) their Company common stock for more than one year as of the date of the First Step Merger. For U.S. holders of Company common stock that are noncorporate holders, long-term capital gain generally will be taxed at a maximum U.S. federal income-tax rate that is lower than the rate for ordinary income or for short-term capital gains. The maximum U.S. federal income-tax rate in effect for long-term capital gains recognized during 2017 is currently 20%. In addition, an unearned income Medicare contribution tax of 3.8% could apply under current law to some to all of the capital gain of a noncorporate U.S. holder, depending on the U.S. holder's level of modified adjusted gross income (or adjusted gross income in the case of a trust or estate) and the applicable other provisions of Code Section 1411. At this time, there is current uncertainty as to whether Congress will change the maximum applicable capital-gains rate or the applicability of the tax under Code Section 1411, in either case with a retroactive January 1, 2017 effective date.

Exercise of Appraisal Rights

A U.S. holder who exercises appraisal rights with respect to the First Step Merger and receives only cash in exchange for shares of Company common stock will generally recognize capital gain (or loss) measured by the difference between the amount of cash received and the holder's basis in those shares, provided that the payment is treated as a redemption pursuant to Section 302 of the Code, and not otherwise equivalent to a dividend. A sale of all Company common stock held by a U.S. holder, based on an exercise of appraisal rights or otherwise, will not be treated as a dividend if the U.S. holder exercising appraisal rights owns no shares of the Company immediately after the First Step Merger, after giving effect to the constructive ownership rules pursuant to the Code. The capital gain or loss will be long-term capital gain or loss if the holder's holding period for the Company common stock surrendered is more than one year.

Backup Withholding and Information Reporting

Payments of cash to a U.S. holder of Company common stock pursuant to the First Step Merger may, under certain circumstances, be subject to information reporting and backup withholding unless the holder provides proof of an applicable exemption or, in the case of backup withholding, furnishes its taxpayer identification number and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a U.S. holder under the backup withholding rules are not additional tax and generally will be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the First Step Merger. Tax matters are very complicated, and the tax consequences of the First Step Merger to you will depend upon the facts of your particular situation. **Accordingly, we strongly urge you to consult with a tax advisor to determine the particular federal, state, local or foreign income or other tax consequences to you of the First Step Merger.**

THE MERGER AGREEMENT

The following summary describes certain aspects of the First Step Merger of Merger Sub with and into the Company, including all the terms of the Merger Agreement that the Company believes are material. The Merger Agreement is attached to this proxy statement as Appendix A and is incorporated by reference in this proxy statement. We urge you to read the Merger Agreement carefully and in its entirety, as it is the legal document governing the First Step Merger.

Terms of the First Step Merger

The Merger Agreement provides for the merger of Merger Sub with and into the Company, with the Company as the surviving entity. Under the terms of the Merger Agreement, at the effective time of this First Step Merger, each share of Company common stock, no par value per share, issued and outstanding immediately before the Effective Time, will be converted into the right to receive $0.235 in cash. Following the effectiveness of the First Step Merger and after the Company's shareholders no longer own shares of Company common stock, the Holding Company Merger and the Bank Merger will be consummated.

Any holder of shares of Company common stock who perfects such holder's appraisal rights in accordance with and as contemplated by Article 13 of the NCBCA shall be entitled to receive the value of such shares in cash as determined pursuant to such provisions of the NCBCA. Additionally, any shares of Company common stock held by PBC, the Merger Sub or Providence Bank immediately prior to the effective time of the First Step Merger (except for any shares held in a fiduciary capacity or as a result of debts previously contracted) will be extinguished as a result of the First Step Merger.

Closing and Effective Time of the First Step Merger

The First Step Merger will be completed only if all of the following occur:

- the Merger Agreement shall have been approved by the requisite affirmative vote of Company shareholders entitled to vote thereon;
- the Reorganization shall have been approved by the requisite affirmative votes of Providence Bank shareholders entitled to vote thereon;
- the Reorganization, the First Step Merger, the Holding Company Merger, the Bank Merger, the Dividend to PBC and certain other transactions described in the Merger Agreement shall have been approved, to the extent required by law, by the Federal Reserve, the FDIC, the Commissioner, and all other governmental or regulatory agencies or authorities having jurisdiction over such transactions;
- Providence Bank shall have successfully closed the Equity Offering;
- the Dividend to PBC shall have occurred immediately prior to the effectiveness of the First Step Merger; and
- all other conditions to the obligations of the parties to consummate the Mergers set forth in the Merger Agreement are either satisfied or waived.

The First Step Merger will become effective when articles of merger are filed with the North Carolina Secretary of State. However, the Company, Cornerstone, PBC, Merger Sub and Providence Bank may agree to a later time for completion of the First Step Merger and specify that time in the articles of merger in accordance with North Carolina law.

Conversion of Shares; Exchange of Certificates

After the effective time of the First Step Merger, PBC will mail, or cause PBC's exchange agent to mail, to the holders of Company common stock as of the date of such mailing, appropriate transmittal materials. Each such holder of shares of Company common stock (other than shares as to which appraisal rights have been perfected as provided in the Merger Agreement) issued and outstanding at the effective time of the First Step Merger shall surrender the certificate(s) representing such shares to PBC (or its exchange agent) and receive the cash merger consideration in exchange. Neither PBC, Providence Bank nor the exchange agent shall be obligated to deliver the cash merger consideration to which any former holder of Company common stock is entitled as a result of the First Step Merger until, if ownership of such shares is represented by one or more certificates, such holder surrenders his, her or its certificate(s) representing the shares of Company common stock for exchange as provided in the Merger Agreement.

Letter of Transmittal. After the effective time of the First Step Merger, the exchange agent will mail to each Company shareholder as of the date of such mailing a letter of transmittal containing instructions for the exchange of such holder's certificate(s) for shares of Company common stock. Upon surrender of the Company shareholders' certificate(s) representing such shares, together with the properly executed letter of transmittal and any other required documents, those certificate(s) will be cancelled and the Company shareholders will receive the cash merger consideration to which they are entitled in accordance with the Merger Agreement. No interest will be paid to Company shareholders or accrued with respect to unpaid dividends and distributions, if any. Upon completion of the First Step Merger, certificates formerly representing ownership of Company common stock will no longer represent ownership of such shares and will only represent the right to receive the cash merger consideration. After the completion of the First Step Merger, there will be no further transfers of Company common stock, except as required to settle trades executed before the effective time of the First Step Merger. If there is a transfer of ownership of any shares of Company common stock not registered in the transfer records of the Company, the cash merger consideration shall be paid to the transferee thereof if the certificates representing such shares are presented to the exchange agent, accompanied by all documents required, in the reasonable judgment of PBC and the exchange agent, to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid.

Holders of shares of Company common stock should not submit their stock certificate(s) for exchange until they receive the transmittal instructions and a form of letter of transmittal from the exchange agent.

If certificates for shares of Company common stock have been lost, stolen, destroyed, mutilated or are otherwise missing, shareholders will have to prove their ownership of those certificates and will only be entitled to the cash merger consideration upon compliance with conditions reasonably imposed by PBC and/or PBC's exchange agent, which may include, without limitation, a requirement that the shareholder provide a lost instruments indemnity bond in a form, substance, and amount reasonably satisfactory to the Company (and/or its exchange agent).

If, after the effective time of the First Step Merger, certificates representing shares of Company common stock are presented to PBC or the exchange agent for any reason, they will be cancelled and exchanged for the cash merger consideration in accordance with the terms of the Merger Agreement. None of PBC, Providence Bank, the Merger Sub, the Company, Cornerstone or

the exchange agent nor any other person will be liable to any Company shareholder for any amount properly delivered to a public official under applicable abandoned property, escheat, or similar laws.

Representations and Warranties

The Merger Agreement contains customary representations and warranties of the Company, Cornerstone, PBC, Merger Sub and Providence Bank relating to their respective businesses. As a condition to closing of the First Step Merger, each of the representations and warranties made by one party to the other must be true and correct both as of the signing date of the Merger Agreement and as of the effective time of the First Step Merger except for such changes which are not, in the aggregate, material and adverse to the financial condition, results of operations, prospects, businesses, assets, loan portfolio, investments, properties, or operations of the party making the representation and warranty.

Each of the Company, Cornerstone, PBC, Merger Sub and Providence Bank has made representations and warranties to the other regarding, among other things:

- corporate matters, including due organization, capacity and authority;
- authority relative to execution and delivery of the Merger Agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the Mergers;
- required governmental filings and consents;
- absence of other required third party consents; and
- compliance with applicable laws.

In addition, the Company and Cornerstone have made other representations and warranties about themselves to PBC and Providence Bank as to:

- capitalization;
- principal shareholders and stock ownership of directors and officers;
- convertible securities, outstanding options, and restricted stock awards;
- their books and records;
- financial statements and accounting;
- tax returns and other matters;
- the absence of material adverse changes or events;
- the timely filing of reports with governmental entities, and the absence of investigations by regulatory agencies;
- the absence of undisclosed liabilities;
- legal proceedings, permits to conduct business, and regulatory agreements;

- broker's fees payable in connection with the Merger;
- loans, accounts, notes, and loan loss reserves;
- securities portfolios and investments;
- the absence of defaults under material contracts;
- employment matters, including employment and similar agreements and employee benefit plans;
- insurance, including coverage, enforceability, and claims;
- disaster recovery and business continuity planning;
- receipt of financial advisor's opinion;
- absence of untrue statements of material facts or omissions of material facts; and
- federal deposit insurance coverage;
- environmental matters;
- employee compensation increases;
- real property and leases related thereto;
- title to real and personal property;
- patents, licenses, trademarks and other intellectual property;
- employee relations and related litigation; and
- securitizations.

These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating the terms of the Merger Agreement, and may have been included in the Merger Agreement for the purpose of allocating risk between the Company and Cornerstone and PBC, Merger Sub and Providence Bank rather than to establish matters as facts. The Merger Agreement is described in, and included as Appendix A to this proxy statement, only to provide you with information regarding its terms and conditions, and not to provide any other factual information regarding the parties to the Merger Agreement or their respective businesses. Accordingly, the representations and warranties and other provisions of the Merger Agreement should not be read alone, but instead should be read only in conjunction with the information provided elsewhere in this proxy statement.

Covenants and Agreements

Each of the Company and Cornerstone has undertaken customary covenants that place restrictions on it and its business until the effective time of the First Step Merger. In general, each of the Company and Cornerstone has agreed that without the consent of PBC and Providence Bank, it will not:

- other than in the ordinary course of business consistent with past practice, incur any indebtedness for borrowed money, assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, or make any loan or advance or capital contribution to, or investment in, any entity;

- adjust, split, combine or reclassify any of its capital stock;

- make, declare or pay any dividend, or make any other distribution on, or directly or indirectly redeem, purchase or otherwise acquire, any shares of its capital stock or any securities or obligations convertible (whether currently convertible or convertible only after the passage of time or the occurrence of certain events) into or exchangeable for any shares of its capital stock;

- grant any stock options, restricted shares, restricted stock units, or other equity-based award with respect to shares of its common stock, or otherwise, or grant any person any right to acquire any shares of its capital stock;

- issue any additional shares of capital stock or other securities;

- commit to make any (i) acquisition and development loan or similar extension of credit, (ii) secured loan or extension of credit in an amount in excess of $300,000, (iii) unsecured loan or extension of credit in an amount in excess of $55,000; (iv) renewal or amendment of any existing loan or extension of credit of more than $50,000 that is past due for more than 60 days as to principal or interest or that is a "classified loan"; (v) nonresidential, non-owner occupied, construction loan, (vi) speculative residential construction loan in excess of $300,000; (vii) apartment loan; or (viii) acquisition of any loan participation; provided, however, that, if a party requests the prior approval of the other party to make a loan or extend credit specified in the preceding items, and the other party shall not have disapproved such request in writing within two business days, then such request shall be deemed to be approved by the other party;

- except as previously agreed by the parties, except as required by applicable law or the terms of the benefit plan of the Company or Cornerstone and except for normal increases made in the ordinary course of business consistent with past practice, (i) increase the wages, salaries, incentive compensation, incentive compensation opportunities of, or benefits provided to, any current, former or retired employee, director, consultant, independent contractor or other service provider, or, except for payments in the ordinary course of business consistent with past practice, pay or provide, or increase or accelerate the accrual rate, vesting or timing of payment or funding of, any compensation, benefits or other rights of any current, former or retired employee, director, consultant, independent contractor or other service provider; (ii) establish, adopt or become a party to any new employee benefit or compensation plan, program, commitment or agreement or amend, modify, change or terminate any benefit plan; (iii) grant any stock options, stock appreciation rights, stock-based or stock-related awards, performance stock, phantom or restricted stock unit awards; (iv) take any action other than in the ordinary course of business and consistent with past practice, to fund or in any way secure the payment of compensation or benefits under any benefit plan; (v) amend, alter or modify any warrant or other equity-based right to purchase any of its capital stock or other equity interests or any securities exchangeable for or convertible into its capital stock; (vi) enter into any collective-bargaining agreement; or (vii) enter, amend, modify, alter, terminate or change any third-party vendor or service agreement related to any of its benefit plans;

- sell, transfer, mortgage, encumber or otherwise dispose of any material amount of its properties or assets, or cancel, release or assign any material amount of indebtedness or claims held by it, in each case other than in the ordinary course of business consistent with past practice or pursuant to contracts in force at the date of the Merger Agreement; provided, however, that if the Company or Cornerstone shall request the prior approval of PBC to sell, transfer or dispose of any of its other real estate owned, and PBC shall not have disapproved such request in writing within two business days following its receipt of such request, then such request shall be deemed to be approved by PBC; provided, further, that no prior approval is required for (i) transactions previously disclosed by the Company and Cornerstone pursuant to the Merger Agreement or (ii) transactions with respect to any real estate valued at less than $250,000 in each case, so long as the sale or transfer price is at least 75% of the book value of such real estate;

- enter into any new line of business or change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking, operating and servicing policies, except as required by applicable law, regulation or policies imposed by any governmental entity;

- make any material investment either by purchase of stock or securities, contributions to capital, property transfers or purchase of any property or assets of any other person;

- take any action or fail to take any action that is intended or may reasonably be expected to result in any of the conditions to the First Step Merger not being satisfied;

- implement or adopt any material change in its tax accounting or financial accounting principles, practices or methods, other than as may be required by applicable law, generally accepted accounting principles ("GAAP") or regulatory guidelines;

- file or amend any tax return other than in the ordinary course of business, make any significant change in any method of tax or accounting (other than as may be required by applicable law, GAAP or regulatory guidelines), make or change any tax election different from its prior ordinary course of conduct or settle or compromise any tax liability in excess of $25,000;

- except for transactions in the ordinary course of business consistent with past practice, terminate or waive any material provision of any material contract or make any change in any instrument or agreement governing the terms of any of its securities or any material lease or contract, other than normal renewals of contracts and leases without material adverse changes of terms;

- organize, charter, establish or acquire, directly or indirectly, any subsidiary;

- take any action that would materially impede, materially impact or materially delay the ability of the parties to obtain any necessary approvals of any regulatory agency required for the consummation of the transactions contemplated by the Merger Agreement;

- conduct its business other than in the ordinary course in all material respects;

- fail to use commercially reasonable efforts to maintain and preserve intact its business organization and advantageous business relationships and retain the services of its key officers and key employees; and

- other than commencement or settlement of foreclosure or other collection actions in the ordinary course of business consistent with past practice, commence or settle any claim,

action or proceeding where the amount in dispute is in excess of $50,000 or subjecting the Company or Cornerstone to any material restrictions on its current or future business operations (including the future business and operations of the resulting bank of the Mergers).

Each of PBC, Merger Sub and Providence Bank has agreed:

- to not take any action or fail to take any action that is intended or may reasonably be expected to result in any of the conditions to the First Step Merger not being satisfied;
- to not take any action that would materially impede, materially impact or materially delay the ability of the parties to obtain any necessary approvals of any regulatory agency required for the consummation of the transactions contemplated by the Merger Agreement; and
- to not agree to take, make any commitment to take, or adopt any board actions in support either of the listed matters above.

The Merger Agreement also contains mutual covenants relating to the preparation of this proxy statement, access to information and filing of regulatory applications, and public announcements with respect to the transactions contemplated by the Merger Agreement.

Calling of Shareholder Meetings to Obtain the Required Shareholder Vote; Other Obligations

The Company agreed to promptly hold a meeting of its shareholders for the purpose of obtaining the requisite approvals of the shareholders of the Company of the Merger Agreement. The Company also agreed that, subject to the fiduciary obligations of its Board, its Board will recommend to the Company's shareholders that they vote their shares in favor of the Merger Agreement. Providence Bank agreed to promptly hold a meeting of its shareholders for purposes of obtaining the requisite shareholder approval of the Reorganization. PBC and Providence Bank also agreed to seek all regulatory approvals required with respect to the Reorganization, the Mergers and the Dividend and to successfully consummate the Equity Offering.

Agreement Not to Solicit Other Offers; Superior Proposals

The Company has agreed that it will not, and will not permit or authorize any of its directors, officers, agents, employees, investment bankers, attorneys, accountants, advisors, agents, affiliates or representatives (collectively, "Representatives"), to, directly or indirectly:

- solicit, initiate, encourage or facilitate (including by way of furnishing information) any Alternative Proposal (as defined below) or any inquiries with respect to the making of any Alternative Proposal;
- participate in any discussions or negotiations regarding an Alternative Transaction (as defined below);
- enter into any agreement regarding an Alternative Transaction; or
- approve, endorse, recommend or enter into any agreement regarding an Alternative Proposal.

As used in the Merger Agreement, the term "Alternative Proposal" means any inquiry or proposal regarding any merger, share exchange, consolidation, sale of assets, sale of shares of capital stock (including by way of a tender offer) or similar transaction involving the Company or Cornerstone. An "Alternative Transaction" means any of (i) a transaction pursuant to which any person (or group of persons) (other than the Company), directly or indirectly, acquires or would

acquire more than 25% of the outstanding shares of Company common stock or outstanding voting power or of any new series or new class of the Company preferred stock that would be entitled to a class or series vote with respect to the Merger Agreement, whether from the Company or pursuant to a tender offer or exchange offer or otherwise, (ii) a merger, share exchange, consolidation or other business combination involving the Company or Cornerstone (other than the Mergers), (iii) any transaction pursuant to which any person (or group of persons) (other than the Company) acquires or would acquire control of assets (including for this purpose the outstanding equity securities of Cornerstone and securities of the entity surviving any merger or business combination, including Cornerstone) of the Company representing more than 25% of the assets of the Company and Cornerstone, taken as a whole, immediately before such transaction, or (iv) any other consolidation, business combination, recapitalization or similar transaction involving the Company or Cornerstone, other than the Mergers, as a result of which the holders of shares of Company common stock immediately before such transactions do not, in the aggregate, own at least 75% of the outstanding shares of common stock and the outstanding voting power of the surviving entity in such transaction immediately after the consummation thereof in substantially the same proportion as such holders held the shares of Company common stock immediately before the consummation thereof.

The Company is required to notify PBC and Providence Bank in writing within 48 hours of the receipt of any Alternative Proposal or any information related thereto, which notification shall describe all material terms of the Alternative Proposal and identify the third party making such proposal. The Company is required thereafter to keep PBC fully informed of any material changes in such Alternative Proposal.

Notwithstanding the Company's agreements set forth above, the Company and its Board of Directors are permitted:

- If at any time before approval of the Merger Agreement by the Company's shareholders, (1) the Company or Cornerstone receives an unsolicited written Alternative Proposal that the Company's Board believes in good faith to be bona fide, (2) such Alternative Proposal was not the result of a violation of the Merger Agreement, (3) the Company's Board determines in good faith (after consultation with outside counsel and its financial advisor) that such Alternative Proposal constitutes or is reasonably likely to lead to a "Superior Proposal" (as defined below), and (4) the Company's Board determines in good faith (after consultation with outside counsel) that the failure to take the actions described below would be reasonably likely to violate its fiduciary duties under applicable law, then the Company may (and may authorize Cornerstone and its Representatives to) (x) furnish nonpublic information regarding the Company and Cornerstone to the person or entity making such Alternative Proposal (and its Representatives) pursuant to a customary confidentiality agreement containing terms substantially similar to, and no less favorable to the Company than, those contained in its confidentiality agreement with Providence Bank (provided, that any nonpublic information provided to any person given such access shall have been previously provided to the Company or shall be provided to PBC before or concurrently with the time it is provided to such person or entity), and (y) participate in discussions and negotiations with the person or entity making such Alternative Proposal.
- At any time before obtaining approval of the Merger Agreement by the Company's shareholders, the Company's Board may, if the Company's Board determines in good faith (after consultation with outside counsel) that the failure to do so would be reasonably likely to violate its fiduciary duties under applicable law, taking into account all adjustments to the terms of the Merger Agreement that may be offered by PBC as discussed below, make an "Adverse Recommendation Change" (as defined below); provided, that the Company may not make any Adverse Recommendation Change in response to an Alternative Proposal unless (x) the Company shall not have breached the Merger Agreement in any respect and

(y): (1) the Company's Board determines in good faith (after consultation with outside counsel and its financial advisor) that such Alternative Proposal is a Superior Proposal and such Superior Proposal has been made and has not been withdrawn and continues to be a Superior Proposal after taking into account all adjustments to the terms of the Merger Agreement that may be offered by the Company as described below; (2) the Company has given PBC at least five business days' prior written notice of its intention to take such action (which notice shall specify the material terms and conditions of any such Superior Proposal (including the identity of the person or entity making such Superior Proposal) and has contemporaneously provided an unredacted copy of the relevant proposed transaction agreements with the person making such Superior Proposal; and (3) before effecting such Adverse Recommendation Change, the Company has negotiated, and has caused its representatives to negotiate, in good faith with PBC during such notice period to the extent the Company wishes to negotiate, to enable the Company to revise the terms of the Merger Agreement such that it would cause such Superior Proposal to no longer constitute a Superior Proposal. In the event of any material change to the terms of such Superior Proposal, the Company shall, in each case, be required to deliver to PBC a new written notice, the notice period shall have recommenced and the Company shall be required to comply with its above obligations with respect to such new written notice.

As used in the Merger Agreement, the term "Adverse Recommendation Change" means a withdrawal, a modification or qualification in any manner adverse to PBC and Providence Bank, or a refusal by the Company's Board to make a recommendation of approval of the Merger Agreement to the Company's shareholders or an adoption, approval, recommendation or endorsement of any Alternative Proposal. The term "Superior Proposal" means any unsolicited bona fide Alternative Proposal made by a third party that is on terms that the Board of Directors of the Company in good faith concludes, after consultation with its financial advisors and outside counsel, taking into account, among other things, all legal, financial, regulatory, and other aspects of the Alternative Proposal and the person or entity making the proposal, including any break-up fees, expense reimbursement provisions, and conditions to consummation, (i) is on terms that the Board of the Company in its good faith judgment believes to be more favorable from a financial point of view to its shareholders than the First Step Merger (taking into account any adjustment to terms and conditions proposed by the Company as described above), and (ii) if accepted, is reasonably likely to be completed on the terms proposed on a timely basis.

Expenses and Fees

In general, each of the Company and PBC (and Providence Bank) will pay its own costs and expenses (including all legal, accounting, and financial advisory fees) incurred in connection with the Merger Agreement or the transactions contemplated therein, whether or not the First Step Merger is consummated. Under certain circumstances, the Company has agreed to reimburse Providence Bank and Providence Bank has agreed to reimburse the Company for its reasonable out-of-pocket expenses relating to the Mergers in an amount not to exceed $250,000. See "—Termination of the Merger Agreement" beginning on page 48.

Employee Matters

Providence Bank has agreed that any employee of Cornerstone who continues employment with Providence Bank after closing of the First Step Merger (a "New Employee") shall become entitled to receive all employee benefits and to participate in all benefit plans provided by Providence Bank on the same basis and subject to the same eligibility and vesting requirements, and to the same conditions, restrictions and limitations, as generally are in effect and applicable to similarly situated employees of Providence Bank. However, each New Employee shall be given credit for his or her full years of service with Cornerstone for purposes of (i) entitlement to vacation and sick leave and

for participation in all of Providence Bank's welfare, insurance and other fringe benefit plans, and (ii) eligibility for participation and vesting in Providence Bank 401(k) and pension plans.

In addition, Providence Bank has agreed that any New Employees (other than those who are parties to an employment and change of control agreement with the Company or Cornerstone) whose employment is terminated by Providence Bank due to permanent or indefinite reduction of staff resulting in job elimination, reduction of a position as a result of the Mergers or an organizational or business restructuring on the integration of the Company and Cornerstone with PBC and Providence Bank, discontinuation of an operation, relocation of all or a part of PBC's business, sale of an operation, sale of all or a part of the Company's business or a voluntary resignation (after being notified that the New Employee's base salary or hourly wages will be materially reduced), in each event within six months following the closing of the First Step Merger, shall receive severance pay equal to (i) for New Employees with one or more years of service, two weeks of pay for every year of service with the Company or Cornerstone, with a minimum of four weeks and a maximum of 26 weeks (including service following the closing of the Mergers), and (ii) for New Employees with less than one year of service, two weeks of pay.

For a discussion of the effect of the First Step Merger on agreements among the Company, Cornerstone and Mr. Holmes and Mr. Robbins, the executive officers of the Company and Cornerstone, see "The Company's Directors and Officers Have Financial Interests in the First Step Merger" beginning on page 29.

Indemnification and Insurance

The Merger Agreement provides that PBC and Providence Bank will indemnify, hold harmless, and defend the directors and officers of the Company and Cornerstone in office at the effective time of the First Step Merger to the fullest extent permitted by applicable law with respect to claims, actions, suits, proceedings, losses, damages, costs, expenses, liabilities, judgments, and amounts paid in settlement that are threatened or undertaken against or incurred by such persons in connection with or that arise out of any action or failure to act by such person in the ordinary scope of such person's duties as a director or officer of the Company or Cornerstone. The foregoing indemnification obligation is in addition to any indemnification rights such director or officer may have under the articles of incorporation or bylaws of the Company or Cornerstone.

The Merger Agreement provides that PBC and Providence Bank will maintain for a period of at least six years after completion of the First Step Merger, or such lesser time as such insurance can be purchased for an aggregate amount equal to 150% of the current premiums paid by the Company, the current directors' and officers' liability insurance policy of the Company, or provide coverage under a substitute policy or policies of at least the same coverage amount and with terms and conditions which are not less advantageous than such policy, and cause the persons who served as directors or officers of the Company or Cornerstone at the effective time of the First Step Merger to be covered by such extended policy.

Conditions to Completion of the First Step Merger

The respective obligations of the Company and Cornerstone to effect the First Step Merger and of PBC, Merger Sub and Providence Bank to effect the First Step Merger are subject to the satisfaction on or prior to the closing date of the First Step Merger of the following conditions:

- the Merger Agreement shall have been approved by the requisite affirmative vote of the holders of the Company's common stock;

- the Reorganization shall have been approved by the requisite affirmative vote of the holders of the Providence Bank common stock entitled to vote thereon;

- the Reorganization, the Mergers and the Dividend to PBC shall have been approved by the Federal Reserve, the FDIC and Commissioner, as applicable, as required by law, and no governmental agency shall have imposed any condition on such transactions or its approval, which condition would or would be reasonably likely to have a material and adverse effect upon the business, assets, liabilities, properties or results of operation, financial condition or management team of the Company, Cornerstone, PBC, Merger Sub or Providence Bank;

- the Equity Offering shall have been successfully completed;

- there shall be no order, decree, or injunction of any court or agency of competent jurisdiction which enjoins or prohibits the Reorganization, the Mergers, the Dividend or the Equity Offering; and

- no statute, rule or regulation shall have been enacted, promulgated or enforced by any governmental entity that prohibits or makes illegal the closing of the Mergers.

The obligation of PBC, Merger Sub and Providence Bank to effect the First Step Merger is also subject to the satisfaction, or waiver by them, on or prior to the effectiveness of the First Step Merger, of a number of other conditions, including:

- each of the representations and warranties of the Company and Cornerstone contained in the Merger Agreement shall have been true and correct as of the date made and shall be true and correct at and as of the effective time of the First Step Merger (except for representations and warranties that by their terms speak as of the date of the Merger Agreement or another date shall be true and correct as of such date);

- each of the Company and Cornerstone shall have performed in all material respects all its obligations, covenants, and agreements set forth in the Merger Agreement on or before the effective time of the First Step Merger;

- each person who is a member of the Board of Directors of the Company as of the date of execution of the Merger Agreement shall have entered into a voting agreement with PBC in such form as is reasonably satisfactory to PBC;

- each person who is a member of the Board of Directors of the Company as of the date of the execution of the Merger Agreement shall have entered into a noncompetition agreement with PBC and Providence Bank;

- the amount of Cornerstone's adversely classified assets shall not exceed $5.0 million as of the most recent month end prior to the closing date of the First Step Merger;

- the Company and Cornerstone shall have not incurred more than $300,000 in merger-related expenses; and

- Mr. Holmes and Mr. Robbins, the senior executive officers of the Company and Cornerstone, shall have entered into an agreement, in such form as is reasonably satisfactory to PBC, providing for the termination of his existing employment and change of control agreement with the Company and Cornerstone and the waiver of any claims associated therewith.

The obligation of the Company and Cornerstone to complete the First Step Merger is also subject to the satisfaction, or waiver by the Company and Cornerstone, on or prior to the closing date of the First Step Merger, of a number of other conditions, including:

- each of the representations and warranties of PBC, Merger Sub and Providence Bank contained in the Merger Agreement shall have been true and correct as of the date made and shall be true and correct at and as of the effective time of the First Step Merger (except for representations and warranties that by their terms speak as of the date of the Merger Agreement or another date shall be true and correct as of such date); and

- PBC, the Merger Sub and Providence Bank shall have performed in all material respects all its obligations, covenants, and agreements set forth in the Merger Agreement on or before the effective time of the First Step Merger.

None of the Company, Cornerstone, PBC, the Merger Sub or Providence Bank can provide assurance as to when or if all of the conditions to the First Step Merger can or will be satisfied or, if applicable, waived by the appropriate party.

Termination of the Merger Agreement

The Merger Agreement can be terminated as follows:

- by the mutual consent of the Company, Cornerstone, PBC, the Merger Sub and Providence Bank;

- by any of the parties to the Merger Agreement if all required regulatory approvals of the Reorganization, the Mergers and/or the Dividend are not obtained and any such denial of approval is final and nonappealable or if any regulatory agency having jurisdiction over the Reorganization, the Mergers and/or the Dividend issues a final and nonappealable order enjoining the consummation of the Reorganization, the Mergers and/or the Dividend;

- by any of the parties to the Merger Agreement if the First Step Merger has not been consummated by April 30, 2018, unless the failure to close is due to the failure of the party seeking to terminate the Merger Agreement to perform and observe its covenants and agreements under the Merger Agreement;

- by PBC and Providence Bank if the Company or Cornerstone has materially breached any of its representations, warranties, covenants or other agreements contained in the Merger Agreement, which breach has not been cured within 30 days following written notice by PBC and Providence Bank of such breach or which breach cannot be cured within such 30 day period;

- by the Company and Cornerstone if PBC, Merger Sub or Providence Bank has materially breached any of its representations, warranties, covenants or other agreements contained in the Merger Agreement, which breach has not been cured within 30 days following written notice by the Company and Cornerstone of such breach or which breach cannot be cured within such 30 day period;

- by PBC and Providence Bank if the Company's Board fails to recommend, without modification or qualification, to the Company's shareholders the approval and adoption of the Merger Agreement and the First Step Merger, or in a manner adverse to PBC and Providence Bank, withdraws, proposes to withdraw, modifies or qualifies its recommendation to the Company's shareholders to approve and adopt the Merger Agreement and the First Step

Merger, takes any public action or makes any public statement in connection with the Company's special meeting inconsistent with its recommendation of the Merger Agreement and the First Step Merger, or recommends an Alternative Transaction to the Company's shareholders.

Termination Fees. The Company will be required to pay Providence Bank a termination fee of $475,000, plus reimbursement of up to $250,000 in reasonable out-of-pocket expenses relating to the First Step Merger, if the Merger Agreement is terminated by:

- PBC and Providence Bank because the Company or Cornerstone has materially breached any of its representations, warranties, covenants or other agreements contained in the Merger Agreement or because the Company's Board fails to recommend approval and adoption of the Merger Agreement and the First Step Merger to the Company's shareholders, or withdraws, proposes to withdraw, modifies or qualifies such a recommendation previously made in a manner adverse to PBC and Providence Bank, or takes any public action or makes any public statement in connection with the Company's special meeting inconsistent with such a recommendation previously made, or recommends to the Company's shareholders any Alternative Transaction, and before termination by the Company an Alternative Transaction was commenced or publically disclosed or proposed and within 12 months after such a termination the Company enters into an agreement with respect to, or consummates, an Alternative Transaction; or

- PBC and Providence Bank, if, after receiving a proposal of an Alternative Transaction the Company's Board does not convene the Company's special meeting or does not recommend that the Company's shareholders adopt or approve the Merger Agreement and the First Step Merger, and within 12 months of the receipt by the Company's Board of such proposal, the Company enters into an agreement with respect to, or considers, an Alternative Transaction.

Providence Bank will be required to pay the Company a termination fee of $300,000, plus reimbursement of up to $250,000 in reasonable out-of-pocket expenses relating to the First Step Merger, if Providence Bank fails to complete the Equity Offering or obtain all required regulatory approvals for the Dividend.

Effect of Termination

If the Merger Agreement is terminated, it will become void, and there will be no liability on the part of the Company, Cornerstone, PBC, the Merger Sub or Providence Bank, except that designated provisions of the Merger Agreement, including the payment of fees and expenses, the confidential treatment of information, non-solicitation of the other party's employees, notices, and governing law will survive the termination.

Amendment, Waiver and Extension of the Merger Agreement

Subject to applicable law, the Company, Cornerstone, PBC, the Merger Sub and Providence Bank may amend the Merger Agreement by written action authorized by their respective Boards of Directors. However, after any approval of the Merger Agreement and the First Step Merger by the Company's shareholders, there may not be, without further approval of the Company's shareholders, any amendment that affects the amount or form of the merger consideration to be paid to the Company's shareholders or that would adversely affect the Company's shareholders.

Any term or condition of the Merger Agreement may be waived (except as to approvals required by law), at any time by the party which is, and whose shareholders are, entitled to the benefits thereof.

INFORMATION ABOUT THE COMPANY AND CORNERSTONE

General

CB Financial Corporation, or the Company, is a North Carolina business corporation that has its principal place of business in Wilson, North Carolina. The Company's primary subsidiary is Cornerstone.

Cornerstone is a state-chartered, non-member commercial bank and is regulated by the FDIC and the Commissioner. As an insured depository institution, Cornerstone's deposits are insured by the FDIC up to applicable federal deposit insurance limits. Cornerstone operates for the primary purpose of serving the banking needs of individuals and small- to medium-sized businesses in its market area. Cornerstone offers a range of banking services including personal and commercial checking and savings accounts, commercial, consumer and personal loans and other associated services. Some of the other banking products offered by Cornerstone include individual retirement accounts, business and personal money market accounts, certificates of deposit, overdraft protection, safe deposit boxes, remote deposit capture and online banking. Its lending activities include personal loans and a range of short- to medium-term commercial, real estate, residential mortgage and home equity loans.

As of December 31, 2016, Cornerstone had total assets of $109.9 million, net loans outstanding of $71.0 million, and total deposits of $92.1 million. As of December 31, 2015, it had total assets of $105.8 million, net loans outstanding of $67.6 million, and total deposits of $90.5 million.

Cornerstone maintains a website at http://www.thecornerstonebank.com where additional information regarding the Company and Cornerstone can be found, including prior year annual reports under the "Investor Relations" tab. Cornerstone also files periodic reports of condition and income with the FDIC, which reports are publicly available through the FDIC website via the following link, http://www.fdic.gov/bank/statistical/.

Market Areas

Cornerstone's primary market area is Wilson County, North Carolina. As of June 30, 2016, Cornerstone's approximate deposit market share in Wilson County was 8.3%.

Legal Proceedings

From time to time, as part of Cornerstone's business, it is subject to routine litigation. In the opinion of their managements, neither the Company nor Cornerstone is party to any material pending legal proceedings that management believes would have a material adverse effect on the financial condition or results of operations of the Company or Cornerstone.

Beneficial Ownership of Company Common Stock

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.

Name and Address of Beneficial Owner	Beneficial Ownership[1]	Percentage[2]
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 Greenville, NC 27858	6,389,966	13.44%
S. Christopher Williford 2204 Greenwich Lane Wilson, NC 27893	3,913,585	8.23%

(1) 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.

(2) Based upon a total of 47,544,924 shares of common stock outstanding as of the Record Date.

The following table sets forth information with respect to the beneficial ownership of Company common stock as of the Record Date by each director and executive officer of Company, and of such directors and all executive officers of Company, as a group.

Name and Address of Beneficial Owner	Beneficial Ownership[1]	Percentage[2]
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	*
Judy A. Muirhead 410 Mount Vernon Drive NW Wilson, NC 27893	280,734	*

Name and Address of Beneficial Owner	Beneficial Ownership[1]	Percentage[2]
W. Coalter Paxton, III 1113 Lakeside Drive Wilson, NC 27896	1,218,352	2.56%
Christopher O. Robbins 1605 Longwood Drive 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 27893	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%

* The asterisk indicates that the beneficial owner's ownership does not exceed 1% of the outstanding class of shares.

(1) 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.

(2) The calculation of the percentage of class beneficially owned by each individual and the group is based, in each case, on the sum of 47,544,924 outstanding shares of common stock as of the Record Date.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY

The following presents the discussion and analysis of the consolidated financial condition and results of operations of the Company as of and for the years ended December 31, 2016 and December 31, 2015 of the Company's management. It also includes a summary update of the Company's unaudited financial condition as of June 30, 2017 and results of operations for the six-month period ended June 30, 2017. This discussion is designed to provide a more comprehensive review of the operating results and financial position of the Company than could be obtained from an examination of the consolidated financial statements alone. The discussion should be read in conjunction with the consolidated financial statements of the Company and the notes related thereto that are attached to this proxy statement as Appendix D.

Consolidated Financial Condition and Results of Operations as of and for the six months ended June 30, 2017

Financial Overview. The Company reported net income totaling $296,000 for the six month period ended June 30, 2017. The return on average equity was 7.71% and the return on average assets was 0.54%, as compared to 94.49% and 4.96%, respectively, for the same period in 2016. The June 2016 reversal of the Company's deferred tax asset valuation allowance ("DTA-VA") created an

income tax benefit of $2.4 million in the six months ended June 30, 2016. Financial highlights as of June 30, 2017 include the following:

- Total assets were $106.8 million, a decrease of $3.1 million, or 2.8%, from December 31, 2016.
- Loans were $76.0 million, an increase of $4.0 million, or 5.6%, from December 31, 2016.
- Net interest income year to date 2017 increased $148,000, or 9.9%, when compared to the same period in 2016.
- Deposits were $87.3 million, a decrease of $3.8 million, or 4.2%, as compared to December 31, 2016.
- Total shareholders' equity was $8.0 million, an increase of $500,000, or 6.7%, as compared to December 31, 2016.

Summary of Results of Operations. Net income for the six month period ended June 30, 2017 was $296,000 or $0.01 per average common share outstanding, a decrease of $2.4 million, or 88.9%, when compared to net income of $2.7 million or $0.06 per average common share outstanding for the same period in 2016. The June 2016 reversal of the Company's DTA-VA created an income tax benefit of $2.4 million in the corresponding 2016 period.

Net interest income before the provision for loan losses increased $148,000, or 9.9%, from the same period in 2016. Noninterest income decreased $94,000, or 29.5%, year over year and noninterest expense decreased $73,000, or 4.9%, as compared to 2016.

Assets: Loan Portfolio. The loan portfolio is the largest component of earning assets for the Company and accounts for the greatest portion of total interest income. The Company does not have any loans that are held as available for sale.

The following table summarizes the loan portfolio as of June 30, 2017 and December 31, 2016:

Loan Summary

($ in thousands)	**June 30, 2017**		**December 31, 2016**	
Commercial	$6,434	8.5%	$7,168	10.0%
Commercial real estate	32,075	42.2%	27,574	38.3%
Residential real estate	29,647	39.0%	30,321	42.1%
Construction and development	6,418	8.5%	5,520	7.7%
Consumer and other	1,378	1.8%	1,376	1.9%
Total Loans	**$75,952**	**100.0%**	**$71,959**	**100.0%**

Total nonperforming assets consist of nonaccrual loans, foreclosed property and loans past due greater than 90 days and accruing interest. It should be noted that there were no loans past due greater than 90 days and still accruing on June 30, 2017 or December 31, 2016. Nonperforming assets were $2.9 million at June 30, 2017 as compared to $1.8 million at December 31, 2016, and are summarized below:

Total Nonperforming Assets

($ in thousands)	**June 30, 2017**	**December 31, 2016**
Nonaccrual loans	$1,342	$404
Foreclosed assets	1,573	1,397
Total nonperforming assets	**$2,915**	**$1,801**

Investment Securities. All of the Company's investment securities portfolio is classified as available for sale. These securities are carried at estimated fair value and may be sold in response to changes in market interest rates, changes in securities' prepayment risk, increases in loan demand, general liquidity needs or for other similar factors. Securities available for sale totaled $13.8 million at June 30, 2017, a decrease of $3.1 million, or 18.3%, as compared to $16.9 million at December 31, 2016.

Asset Quality – Provision/Allowance for Loan Losses. The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with the Company's management evaluation of the credit quality and risk inherent in the loan portfolio. The allowance for loan losses represents management's estimate of the amount adequate to provide for potential losses inherent in the loan portfolio. To achieve this goal, the loan loss provision must be sufficient to cover loans charged off plus any growth in the loan portfolio and recognition of specific loan impairments. In determining the adequacy of the allowance for loan losses, the Company's management uses a methodology which specifically identifies and reserves for higher risk loans. A general reserve is established for nonspecifically reserved loans. Loans in a nonaccrual status and over ninety days past due are considered in this evaluation as well as other loans, which may be a potential loss. The status of nonaccrual and past due loans varies from quarter to quarter based on seasonality, economic conditions and the cash flow of customers.

The allowance for loan losses was $1.0 million or 1.3% of loans at June 30, 2017 as compared to $976,000 or 1.4% of loans at December 31, 2016. These estimates are primarily based on the Company's historical loss experience, evaluation of individual loans and economic conditions.

The table below details the activity in the allowance for loan losses for the six month period ended June 30, 2017 and for the year ended December 31, 2016:

Allowance for Loan Losses

($ in thousands)	**June 30, 2017**	**December 31, 2016**
Beginning balance	$976	$1,123
Provision for loan losses	-	-
Charge-offs	(58)	(264)
Recoveries	107	117
Ending Balance	**$1,025**	**$976**

The Company's management and Board of Directors believe that the total allowance at June 30, 2017 was adequate to provide for expected losses in the loan portfolio, but there are no assurances that this will be the case.

Liabilities: Deposits. The Company's major source of funds and liquidity is its deposit base. Deposits provide funding for the Company's investment in loans and securities. The Company's primary objective is to increase core deposits as a means to fund asset growth at a lower cost. Interest paid for deposits must be managed carefully to control the level of interest expense. The Company offers individuals and small-to-medium sized businesses a variety of deposit accounts, including checking, savings, money market and certificates of deposit. The levels and mix of deposits are influenced by such factors as customer service, interest rates paid, service charges and the convenience of banking locations. Competition for deposits is intense from other depository institutions, internet competition and money market funds, some of which offer interest rates higher than we pay. The Company attempts to identify and implement pricing and marketing strategies designed to control the overall cost of deposits and to maintain a stable deposit mix. The following table summarizes our total deposits as of June 30, 2017 and December 31, 2016.

Total Deposits *($ in thousands)*	**June 30, 2017**	**December 31, 2016**	**Change**	**Percent Change**
Noninterest demand deposits	$15,844	17,213	$(1,369)	-8.0%
Interest bearing checking	27,314	28,056	(742)	-2.6%
Money markets	8,320	8,965	(645)	-7.2%
Savings	3,659	3,464	195	5.6%
Time deposits	32,194	33,433	(1,239)	-3.7%
Total Deposits	**$87,331**	**$91,131**	**$(3,800)**	**-4.2%**

Noninterest Income. Noninterest income is principally comprised of service charges on deposit accounts, mortgage origination fees, changes in the cash surrender value of bank owned life insurance, gains on sale of investment securities and fees on investment products. For the six months ended June 30, 2017, noninterest income was $225,000, a decrease of $94,000, or 29.5%, when compared to the same period in 2016. The decrease in total noninterest income was primarily the result of a decrease in gains on sale of investment securities. The following table shows the components of noninterest income and the dollar and percentage changes for the six month periods presented:

Noninterest income *($ in thousands)*	**June 30, 2017**	**June 30, 2016**	**Change**	**Percent Change**
Service charges	$66	75	$(9)	-12.0%
Increase in surrender value bank owned life insurance	52	57	(5)	-8.8%
Mortgage operations	30	38	(8)	-21.1%
Gain on sale of securities	15	84	(69)	-82.1%
Fees on investment products	10	14	(4)	-28.6%
Other	52	51	1	2.0%
Total noninterest income	**$225**	**$319**	**$(94)**	**-29.5%**

Noninterest Expense. For the six months ended June 30, 2017, noninterest expense totaled $1.5 million, a decrease of $72,000, or 4.7%, as compared to the same period in 2016. Compensation expense, occupancy and equipment expense, foreclosed asset expense and FDIC insurance expense all decreased. These were partially offset by increases in professional fees, data processing, advertising and other expense. The following table shows the components of noninterest expense and the dollar and percentage changes for the six month periods presented:

Noninterest expense *($ in thousands)*	**June 30, 2017**	**June 30 2016**	**Change**	**Percent Change**
Compensation expense	$782	$801	$(19)	-2.4%
Occupancy and equipment expense	109	118	(9)	-7.6%
Professional fees	107	89	18	20.2%
Data processing	228	225	3	1.3%
Advertising	29	24	5	20.8%
Foreclosed asset expense, net	-	40	(40)	-100.0%
FDIC insurance expense	27	72	(45)	-62.5%
Other operating expense	178	163	15	9.2%
Total noninterest expense	**$1,460**	**$1,532**	**$(72)**	**-4.7%**

Liquidity. One of the principal goals of the Company's asset and liability management strategy is to maintain adequate liquidity. Liquidity measures the Company's ability to meet its maturing obligations and existing commitments, to withstand fluctuations in deposit levels, to fund Cornerstone's operations and to provide for customers' credit needs. Liquidity represents a financial institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds from alternative funding sources.

The Company's primary sources of liquidity are cash on hand and on deposit at other banks; the outstanding balance of federal funds sold; the market value of unpledged investment securities; and availability under lines of credit. At June 30, 2017, the total amount of these four items was $32.0 million or 29.9% of total assets, a decrease of $5.2 million, or 33.9%, from $37.2 million of total assets at December 31, 2016.

Shareholders' Equity. The management of capital in the financial services industry, which is heavily regulated, must properly balance return on equity to shareholders with maintaining sufficient capital levels and related risk-based capital ratios to satisfy regulatory requirements. The Company's capital management strategies have been developed to provide attractive rates of return to shareholders, while maintaining Cornerstone's "well-capitalized" position. The primary source of additional capital to Cornerstone is earnings retention, which represents net income less dividends declared, if any.

As of June 30, 2017 and December 31, 2016, Cornerstone exceeded "well capitalized" requirements for each of the four primary capital ratios monitored by state and federal regulators:

	"Well Capitalized" Minimums	June 30, 2017	December 31, 2016
Common equity tier 1 capital	6.5%	15.89%	15.79%
Tier 1 risk based capital ratio	8.0%	15.89%	15.79%
Total risk based capital ratio	10.0%	17.14%	17.05%
Tier 1 leverage ratio	5.0%	10.49%	10.19%

The book value per common share of the Company increased from $0.16 at December 31, 2016 to $0.17 at June 30, 2017.

Comparison of Consolidated Financial Condition and Results of Operations as of and for the years ended December 31, 2016 and 2015

Financial Overview. The Company reported net income totaling $2.5 million for 2016. The return on average equity was 37.90% and the return on average assets was 2.33% as compared to 17.98% and 0.55%, respectively, for 2015. The June 2016 reversal of the Company's DTA-VA created a net income tax benefit of $2.0 million for 2016. Financial highlights for 2016 included the following:

- Total assets increased $4.1 million, or 3.9%, over the prior year.
- Total loans increased $3.2 million, or 4.7%, over the prior year.
- Total deposits increased $1.4 million, or 1.6%, as compared to 2015.
- Net interest income before provision increased $67,000, or 2.2%, as compared to 2015.
- Total nonperforming assets to total assets decreased 34 basis points from 1.98% at December 31, 2015 to 1.64% at December 31, 2016.
- The allowance for loan losses as a percentage of loans decreased 27 basis points to 1.36% as of December 31, 2016, from 1.63% one year earlier.

Summary of Results of Operations. Net income for 2016 was $2.5 million or $0.05 per average common share outstanding, an increase of $1.9 million, or 316.1%, as compared to net income of $601,000 or $0.02 per average common share outstanding for 2015. Net interest income before the provision for loan losses increased $67,000, or 2.2%, from 2015. Noninterest income decreased $113,000, or 16.1%, year over year and noninterest expense decreased $276,000, or 8.0%, as compared to 2015. Financial results for 2016 were positively impacted by the reversal of the Company's DTA-VA, which created a net income tax benefit of $2.0 million.

Assets – Loan Portfolio. The loan portfolio is the largest component of earning assets for the Company and accounts for the greatest portion of total interest income. The Company did not have any loans that were held as available for sale in 2016 or 2015.

The following table summarizes the loan portfolio for years ended December 31, 2016 and 2015:

Loan Summary *($ in thousands)*	**December 31, 2016**		**December 31, 2015**	
Commercial	$7,168	10.0%	$13,401	19.5%
Commercial real estate	27,574	38.3%	20,143	29.3%
Residential real estate	30,321	42.1%	28,301	41.2%
Construction and development	5,520	7.7%	4,696	6.8%
Consumer and other	1,376	1.9%	2,175	3.2%
Total Loans	**$71,959**	**100.0%**	**$68,716**	**100.0%**

Total nonperforming assets consists of nonaccrual loans, foreclosed property and loans past due greater than 90 days and accruing interest. Nonperforming assets were $1.8 million at December 31, 2016 as compared to $2.1 million at December 31, 2015, and are summarized below:

Total Nonperforming Assets *($ in thousands)*	**December 31, 2016**	**December 31, 2015**
Nonaccrual loans	$404	$352
Foreclosed assets	1,397	1,746
Total nonperforming assets	**$1,801**	**$2,098**

Investment securities. All of the Company's investment securities portfolio was classified as available for sale in 2016 and 2015. These securities were carried at estimated fair value and could be sold in response to changes in market interest rates, changes in securities' prepayment risk, increases in loan demand, general liquidity needs or for other similar factors. Securities available for sale totaled $16.9 million at December 31, 2016, a decrease of $3.9 million, or 18.8%, as compared to $20.8 million at December 31, 2015.

Asset Quality – Provision/Allowance for Loan Losses. The provision for loan losses is a charge against earnings necessary to maintain the allowance for loan losses at a level consistent with management's evaluation of the credit quality and risk adverseness of the loan portfolio. The Company's allowance for loan losses represents management's estimate of the amount adequate to provide for potential losses inherent in the loan portfolio. To achieve this goal, the loan loss provision must be sufficient to cover loans charged off plus any growth in the loan portfolio and recognition of specific loan impairments. In determining the adequacy of the allowance for loan losses, management uses a methodology which specifically identifies and reserves for higher risk loans. A general reserve is established for nonspecifically reserved loans. Loans in a nonaccrual status and over ninety days past due are considered in this evaluation as well as other loans, which may be a potential loss. The status of nonaccrual and past due loans varies from quarter to quarter based on seasonality, economic conditions and the cash flow of customers.

The allowance for loan losses was $976,000 or 1.36% of loans at December 31, 2016 as compared to $1.1 million or 1.63% of loans at December 31, 2015. These estimates were primarily based on the Company's historical loss experience, evaluation of individual loans and economic conditions.

The table below details the activity in the allowance for loan losses for 2016 and 2015:

Allowance for Loan Losses *($ in thousands)*	**December 31, 2016**	**December 31, 2015**
Beginning balance	$1,123	$1,570
Provision for loan losses	-	(275)
Charge-offs	(264)	(565)
Recoveries	117	393
Ending Balance	**$976**	**$1,123**

The Company's management and its Board of Directors believed that the total allowance at year-end 2016 and 2015 were adequate to provide for expected losses in the loan portfolio.

Liabilities – Deposits. The Company's major source of funds and liquidity is its deposit base. Deposits provide funding for the bank's investment in loans and securities. The Company's primary objective is to increase core deposits as a means to fund asset growth at a lower cost. Interest paid for deposits must be managed carefully to control the level of interest expense. The Company offers individuals and small-to-medium sized businesses a variety of deposit accounts, including checking, savings, money market and certificates of deposit. The levels and mix of deposits are influenced by such factors as customer service, interest rates paid, service charges and the convenience of banking locations. Competition for deposits is intense from other depository institutions and money market funds, some of which offer interest rates higher than we pay. The Company attempts to identify and implement pricing and marketing strategies designed to control the overall cost of deposits and to maintain a stable deposit mix. The following table summarizes our total deposits for the years ended December 31, 2016 and 2015:

Total Deposits *($ in thousands)*	**December 31, 2016**	**December 31, 2015**	**Percent Change**	**Change**
Noninterest demand deposits	$17,213	$12,779	$4,434	34.7%
Interestbearing checking	28,056	27,466	590	2.1%
Money markets	8,965	7,672	1,293	16.9%
Savings	3,464	3,491	(27)	-0.8%
Time deposits	33,433	38,315	(4,882)	-12.7%
Total Deposits	**$91,131**	**$89,723**	**$1,408**	**1.6%**

Net Interest Income. Net interest income represents the difference between the income on earning assets and interest expense on liabilities used to fund those assets. Earning assets include loans, securities, and federal funds sold. Interest bearing liabilities include deposits and borrowings. Net interest income is affected by changes in interest rates, volume of interest bearing assets and liabilities, and the composition of those assets and liabilities. The "interest rate spread" and "net interest margin" are two common statistics related to changes in net interest income. The interest rate spread represents the difference between the yields earned on interest earning assets and the rates paid for interest bearing liabilities. The net interest margin is defined as the percentage of net interest income to average earning assets. Earning assets obtained through noninterest bearing sources of funds such as regular demand deposits and shareholders' equity result in a net interest margin that is higher than the interest rate spread. For the year ended December 31, 2016, net interest income was $3.1 million, an increase of $67,000, or 2.2%, as compared to the year ended December 31, 2015. The increase was primarily attributable to a $64,000 decrease in interest expense paid on deposits and borrowings. In comparison to the prior year, the Company's net interest margin increased by 7 basis points from 3.20% for 2015 to 3.27% for 2016.

Noninterest Income. Noninterest income is principally comprised of service charges on deposit accounts, mortgage origination fees, changes in the cash surrender value of bank owned life insurance and fees on investment products. For the year ended December 31, 2016, noninterest income declined $113,000, or 16.1%, to $589,000. The decline in total noninterest income was the primarily the result of lower increases in surrender value of bank owned life insurance.

The following table shows the components of noninterest income and the dollar and percentage changes for the periods presented:

Noninterest income *($ in thousands)*	**December 31, 2016**	**December 31, 2015**	**Change**	**Percent Change**
Service charges	$147	$162	$(15)	-9.3%
Increase in surrender value bank owned life insurance	114	313	(199)	-63.6%
Mortgage operations	91	48	43	89.6%
Gain on sale of securities	126	38	88	231.6%
Fees on investment products	21	34	(13)	-38.2%
Other	90	107	(17)	-15.9%
Total noninterest income	**$589**	**$702**	**$(113)**	**-16.1%**

Noninterest Expenses. For the year ended December 31, 2016, noninterest expense totaled $3.1 million, a decrease of $276,000, or 8.0%, as compared to $3.4 million for the same prior year period. The overall decrease in noninterest expense was primarily the result of lower foreclosed asset expense and lower FDIC insurance premiums.

The following table shows the components of noninterest expense and the dollar and percentage changes for the periods presented:

Noninterest expense *($ in thousands)*	**December 31, 2016**	**December 31, 2015**	**Change**	**Change**
Compensation expense	$1,650	$1,705	$(55)	-3.2%
Occupancy and equipment expense	226	242	(16)	-6.6%
Professional fees	178	223	(45)	-20.2%
Data processing	470	394	76	19.3%
Advertising	53	46	7	15.2%
Foreclosed asset expense, net	40	239	(199)	-83.3%
FDIC insurance expense	103	212	(109)	-51.4%
Other operating expense	436	371	65	17.5%
Total noninterest expense	**$3,156**	**$3,432**	**$(276)**	**-8.0%**

Liquidity. One of the principal goals of the Company's asset and liability management strategy is to maintain adequate liquidity. Liquidity measures the Company's ability to meet its maturing obligations and existing commitments, to withstand fluctuations in deposit levels, to fund Cornerstone's operations and to provide for customers' credit needs. Liquidity represents a financial institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds from alternative funding sources. The Company's primary sources of asset liquidity are: cash on hand and on deposit at other banks; the outstanding balance of federal funds sold; the market value of unpledged investment securities; and availability under lines of credit. At December 31, 2016, the total amount of these four items was $37.2 million or 33.9% of total assets, an increase of $6.5 million from $30.7 million or 29.0% of total assets at December 31, 2015. The Company maintains a liquidity policy as a means to manage liquidity and the associated risk. The policy includes a Liquidity Contingency Plan that is designed as a tool for the Company to detect liquidity issues in order to protect depositors, creditors and stockholders. The liquidity plan includes monitoring various internal and external indicators such as changes in core deposits and changes in market conditions. The liquidity plan calls for specific

responses designed to meet a wide range of liquidity needs based upon assessments that are performed on a recurring basis by the Company and its Board of Directors.

Interest Rate Sensitivity and Inflation. Unlike most companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of changes in the general rate of inflation and changes in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as do the prices of goods and services. The Company's management seeks to manage the relationship between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

While the effect of inflation is normally not as significant as its influence on those businesses that have large investments in plant and inventories, it does have an effect. There are normally corresponding increases in the money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, general increases in the prices of goods and services will result in increased operating expenses.

Shareholders' Equity. The management of capital in the financial services industry, which is heavily regulated, must properly balance return on equity to shareholders with maintaining sufficient capital levels and related risk-based capital ratios to satisfy regulatory requirements. The Company's capital management strategies have been developed to provide attractive rates of returns to shareholders, while maintaining Cornerstone's "well-capitalized" position. The primary source of additional capital to Cornerstone is earnings retention, which represents net income less dividends declared.

Cornerstone exceeded "well capitalized" requirements for each of the four primary capital levels monitored by state and federal regulators in 2016 and 2015:

	"Well Capitalized" Minimums	**December 31, 2016**	**December 31, 2015**
Common equity tier 1 capital	6.5%	15.79%	14.08%
Tier 1 risk based capital ratio	8.0%	15.79%	14.08%
Total risk based capital ratio	10.0%	17.05%	15.34%
Tier 1 leverage ratio	5.0%	10.19%	9.12%

The book value per common share of the Company increased from $0.10 at December 31, 2015 to $0.16 at December 31, 2016.

MANAGEMENT COMPENSATION

The following table shows for the fiscal years ended December 31, 2016 and 2015, the cash and cash equivalent compensation paid by Cornerstone to Mr. Holmes, President and Chief Financial Officer, of the Company and Cornerstone.

Name and Principal Position	Year	Salary	Bonus	Restricted Stock Awards	All Other Compensation[1]	Total Compensation
Mark A. Holmes, President and Chief Financial Officer	2016	$225,000	$22,000	$ -0-	$13,500	$260,500
	2015	$225,000	$50,000	$ -0-	$9,000	$284,000

[1] Cornerstone provides its executive officers with certain group life, health, medical and other non-cash benefits generally available to all salaried employees which are not included in this column. The amounts shown in this column include the following:

- Matching contributions by Cornerstone under a defined contribution plan. During 2016 and 2015, Cornerstone's 401(k) matching contributions were $13,500 and $9,000, respectively.

Employment Agreements. The Company and Cornerstone have entered into employment and change of control agreements with Mr. Holmes and Christopher A. Robbins to ensure a stable and competent management base. The agreements provide for specified benefits and cannot be terminated by the Boards of Directors of the Company and Cornerstone except for cause. In the event of a termination other than for cause, including a termination in connection with a change of control of the Company, these executive officers would be entitled to post-termination compensation of varying amounts and the receipt of other benefits.

Salary, Bonus, and Benefits. Salaries and any increases to the salaries of executive officers must be approved by the Board of Directors of Cornerstone. Cornerstone provides executive management with certain group life, health, medical, and other non-cash benefits generally available to all salaried employees. Executive officers may receive bonuses from time-to-time at the discretion of the Board.

401(k) Savings Plan. Cornerstone has a defined contribution plan for its employees (the "Savings Plan"), which meets the requirements of Section 401(k) of the Code. During 2017, all employees who are at least 21 years of age may elect to contribute between 1.0% and 50.0% of their compensation to the Savings Plan. Each year, Cornerstone determines the percentage of each participant's contribution that it will match with an employer contribution. Cornerstone's percentage match is dollar for dollar of the participant's contributions, up to a maximum of 6.0% the participant's compensation.

Participants are fully vested in amounts that they contribute to the Savings Plan as well as in amounts contributed to the Savings Plan on their behalf by Cornerstone. Benefits under the Savings Plan are payable in the event of the participant's retirement, death, disability or termination of employment. Normal retirement age under the Savings Plan is 65 years of age.

Certain Indebtedness and Transactions of Management

Cornerstone makes loans to its executive officers and directors in the ordinary course of its business. These loans are currently made on substantially the same terms, including interest rates, collateral and repayment terms, as those then prevailing for comparable transactions with

nonaffiliated persons, and do not involve more than the normal risk of collectability or present any other unfavorable features. Applicable regulations prohibit Cornerstone from making loans to its executive officers and directors at terms more favorable than could be obtained by persons not affiliated with Cornerstone.

COMPETITION

Cornerstone competes for deposits in its market with other commercial banks, savings banks and other thrift institutions, credit unions, agencies issuing United States government securities and all other organizations and institutions, including online providers of deposit products, engaged in money market transactions. In its lending activities, it competes with all other financial institutions as well as consumer finance companies, mortgage companies, online loan providers, and other lenders. Commercial banking in the market area of Cornerstone and in North Carolina as a whole is extremely competitive.

Interest rates, both on loans and deposits, and prices of fee-based services, are significant competitive factors among financial institutions generally. Other important competitive factors include office location, office hours, the quality of customer service, community reputation, continuity of personnel and services, and, in the case of larger commercial customers, relative lending limits and the ability to offer sophisticated cash management and other commercial banking services. Many of Cornerstone's competitors have greater resources, broader geographic markets and higher lending limits than those of Cornerstone, and they can offer more products and services and can better afford and make more effective use of media advertising, support services, and electronic technology than can Cornerstone.

In recent years, federal and state legislation has heightened the competitive environment in which all financial institutions conduct their business, and the potential for competition among financial institutions of all types has increased significantly. Additionally, North Carolina banks compete not only with other North Carolina-based financial institutions, but also with out-of-state financial institutions which acquire North Carolina institutions, establish or acquire branch offices in North Carolina, or otherwise offer financial services across state lines, thereby adding to the competitive atmosphere of the industry in general. In terms of assets, Cornerstone is one of the smaller banks in North Carolina.

SUPERVISION AND REGULATION

Bank holding companies and state commercial banks are extensively regulated under both federal and state law. The following is a brief summary of certain statutes, rules and regulations that affect the Company and Cornerstone. This summary contains what management believes to be the material information related to the supervision and regulation of the Company and Cornerstone, but is not intended to be an exhaustive description of the statutes, rules, or regulations referenced herein nor any others applicable to their respective businesses. Supervision, regulation, and examination of the Company and Cornerstone by the regulatory agencies are intended primarily for the protection of depositors rather than shareholders of the Company. Neither the Company nor Cornerstone can predict where or in what form any proposed statute, rule, or regulation will be adopted or the extent to which their respective businesses may be affected by a statute, rule, or regulation. The following discussion is qualified in its entirety by reference to the full text of the applicable laws and regulations. The current regulatory environment for financial institutions entails significant potential increases in compliance requirements and associated costs.

Bank Regulation.

State Law. Cornerstone is subject to extensive supervision and regulation by the Commissioner. The Commissioner oversees state laws that set specific requirements for capital and that regulate deposits in, and loans and investments by, financial institutions, including the amounts, types, and, in some cases, rates. The Commissioner supervises and performs periodic examinations of North Carolina-chartered banks to assure compliance with state banking statutes and regulations, and financial institutions are required to make regular reports to the Commissioner describing in detail their resources, assets, liabilities, and financial condition. Among other things, the Commissioner regulates mergers of state-chartered banks and savings banks, capital requirements for banks and savings banks, loans to officers and directors, recordkeeping, types and amounts of loans and investments, and the establishment of branches.

The Commissioner has extensive enforcement authority over North Carolina financial institutions. Such authority includes the ability to issue cease and desist orders and to seek civil money penalties. The Commissioner may also take possession of a North Carolina financial institution in various circumstances, including for a violation of its charter or of applicable laws, operating in an unsafe and unsound manner, or as a result of an impairment of its capital, and may appoint a receiver.

Cornerstone is also subject to numerous state and federal statutes and regulations that affect its businesses, activities and operations and is supervised and examined by state and federal bank regulatory agencies. The FDIC and the Commissioner regularly examine the operations of Cornerstone and are given the authority to approve or disapprove mergers, consolidations, the establishment of branches and similar corporate actions.

In addition, Cornerstone is subject to various regulations promulgated by the Federal Reserve including, without limitation, Regulation B (Equity Credit Opportunity), Regulation D (Reserves), Regulation E (Electronic Fund Transfers), Regulation O (Loans to Executive Officers, Directors and Principal Shareholders), Regulation W (Transactions Between Member Banks and Affiliates), Regulation Z (Truth in Lending), and Regulation CC (Availability of Funds).

Payment of Dividends and Other Restrictions. There are various legal and regulatory limitations under federal and state law on the extent to which banks can pay dividends. The FDIC, as the primary federal regulator of Cornerstone, and the Commissioner have the authority to prohibit state-chartered financial institutions such as Cornerstone from engaging in what, in the opinion of such regulatory body, constitutes an unsafe or unsound practice in conducting its business. The payment of dividends could, depending upon the financial condition of a bank, be deemed to constitute an unsafe or unsound practice in conducting its business.

Insured depository institutions, such as Cornerstone, are prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized" (as such term is defined in the applicable law and regulations).

Net Worth and Capital Adequacy Requirements Applicable to Cornerstone. Cornerstone is required to comply with the capital adequacy standards established by state and federal laws and regulations.

In additional, the FDIC has promulgated risk-based capital and leverage capital guidelines for determining the adequacy of a bank's capital, and all applicable capital standards must be satisfied for Cornerstone to be considered in compliance with the FDIC's requirements. Under the FDIC's risk-based capital measure, the minimum ratio (total risk-based capital ratio) of a bank's total capital to its risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is

8.0%. At least half of total capital must be composed of common equity, undivided profits, minority interests in the equity accounts of consolidated subsidiaries, qualifying non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets (tier 1 capital). The remainder may consist of certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock, a limited amount of loan loss reserves, and net unrealized holding gains on equity securities (tier 2 capital). At December 31, 2016, Cornerstone's total risk-based capital ratio and tier 1 risk-based capital ratio were 17.05% and 15.79%, respectively. These ratios were well above the FDIC's minimum risk-based capital guidelines.

Under the FDIC's leverage capital measure, the minimum ratio (the "tier 1 leverage capital ratio") of tier 1 capital to total assets is 4.0% for banks that meet certain specified criteria, including having the highest regulatory rating. All other banks generally are required to maintain an additional cushion of 100 to 200 basis points above the stated minimum. The FDIC's guidelines also provide that banks experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum levels without significant reliance on tangible assets, and the FDIC has indicated that it will consider a bank's "tangible leverage ratio" (deducting all intangible assets) and other indicia of capital strength in evaluating proposals for expansion or new activities. At December 31, 2016, Cornerstone's tier 1 leverage capital ratio was 10.19%, well above the FDIC's minimum leverage capital guidelines.

Failure to meet the FDIC's capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on the taking of brokered deposits, and certain other restrictions on its business. As described below, substantial additional restrictions can be imposed upon FDIC-insured depository institutions that fail to meet applicable capital requirements. See "—Prompt Corrective Action" below. The FDIC also considers interest rate risk (arising when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance-sheet position) in the evaluation of a bank's capital adequacy.

In July 2013, the Federal Reserve and the FDIC approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of the Basel Committee on Banking Supervision, commonly called Basel III, and address relevant provisions of the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The new rules include new risk-based capital and leverage ratios, which became effective January 1, 2015 and revise the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Company and Cornerstone are: (i) a new common equity tier 1 capital ratio of 4.5%; (ii) a tier 2 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from prior rules); and (iv) a tier 1 leverage ratio of 4% for all institutions. The new rules eliminate the inclusion of certain instruments, such as trust preferred securities, from tier 1 capital. Instruments issued prior to May 19, 2010, are grandfathered for companies with consolidated assets of $15 billion or less. The new rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity tier 1 capital and will result in the following minimum ratios: (i) a common equity tier 1 capital ratio of 7.0%; (ii) a tier 1 capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement is being implemented in phases, beginning in January 2016 at 0.625% of risk-weighted assets and increasing by that amount each year until fully implemented in January 2019. An institution will be

subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions. At December 31, 2016, all of the Company's and Cornerstone's capital ratios were well above the capital guidelines.

Loans-To-One Borrower. Cornerstone is subject to the Commissioner's loans-to-one-borrower limits. Under these limits, no loans and extensions of credit to any borrower outstanding at one time and not fully secured by readily marketable collateral shall exceed 15% of the net worth of the bank. Loans and extensions of credit fully secured by readily marketable collateral may not exceed 10% of the net worth of the bank. This second limitation is separate from, and in addition to, the first limitation. These limits also authorize banks to make loans-to-one-borrower, for any purpose, in an amount not to exceed $500,000.

As of December 31, 2016, Cornerstone's legal loans-to-one-borrower limits was $1.883 million. At that date the largest aggregate amount of loans that Cornerstone had to any one borrower was $1.491 million.

Limits on Rates Paid on Deposits and Brokered Deposits. Regulations enacted by the FDIC place limitations on the ability of insured depository institutions to accept, renew or roll-over deposits by offering rates of interest which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions in the depository institution's normal market area. Under these regulations, "well capitalized" depository institutions may accept, renew or roll-over such deposits without restrictions, "adequately capitalized" depository institutions may accept, renew or roll-over such deposits with a waiver from the FDIC (subject to certain restrictions on payments of rates) and "undercapitalized" depository institutions may not accept, renew, or roll-over such deposits. The regulations contemplate that the definitions of "well capitalized," "adequately capitalized" and "undercapitalized" will be the same as the definitions adopted by the FDIC to implement the corrective action provisions discussed below. See "—Prompt Corrective Action," below. As of December 31, 2016, Cornerstone exceeded all of the applicable regulatory capital ratios to be considered "well capitalized" under the regulatory framework for prompt corrective action.

Acquisitions. Financial institutions must comply with numerous laws related to their acquisition activity. Subject to various exceptions, the Bank Holding Company Act of 1956 and the Change in Bank Control Act, together with related regulations, require federal bank regulatory approval prior to any person or company acquiring "control" of a bank or bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank or bank holding company. Control is also presumed to exist, although rebuttable, if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either the bank or bank holding company has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Additionally, any company seeking to acquire, directly or indirectly, control or ownership of 5% or more of the voting securities of any bank must generally first make application to the Federal Reserve to become a bank holding company.

FDIC Insurance Assessments. The deposit accounts of Cornerstone are insured by the FDIC's deposit insurance fund. The maximum amount of deposit insurance for banks, savings institutions and credit unions is $250,000 per depositor.

The FDIC issues regulations and conducts periodic examinations, requires the filing of reports and generally supervises the operations of its insured banks. This supervision and regulation is intended primarily for the protection of depositors. Any insured bank that is not operated in

accordance with or does not conform to FDIC regulations, policies and directives may be sanctioned for noncompliance. Civil and criminal proceedings may be instituted against any insured bank or any director, officers or employee of such bank for the violation of applicable laws and regulations, breaches of fiduciary duties or engaging in any unsafe or unsound practice. The FDIC has the authority to terminate insurance of accounts pursuant to procedures established for that purpose.

Cornerstone is subject to insurance assessments imposed by the FDIC. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005. Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings.

The Dodd-Frank Wall Street Reform and Consumer Protection Act required the FDIC to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range at 2.5% to 45 basis points of total assets less tangible equity.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low and moderate-income borrowers in their local communities. An institution's size and business strategy determines the type of examination that it will receive. Large, retail-oriented institutions are examined using a performance-based lending, investment and service test. Small institutions are examined using a streamlined approach. All institutions may opt to be evaluated under a strategic plan formulated with community input and pre-approved by the bank regulatory agency.

The CRA regulations provide for certain disclosure obligations. Each institution must post a notice advising the public of its right to comment to the institution and its regulator on the institution's CRA performance and to review the institution's CRA public file. Each lending institution must maintain for public inspection a file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities and any written comments from the public on its performance in meeting community credit needs. The CRA requires public disclosure of a financial institution's written Community Reinvestment Act evaluations. This promotes enforcement of CRA requirements by providing the public with the status of a particular institution's community reinvestment record.

A bank's ability to commence new activities or engage in strategic transactions is limited if it receives less than a satisfactory Community Reinvestment Act rating in its latest CRA examination. Cornerstone received a "Satisfactory" rating in its most recent CRA examination.

Consumer Protection Laws. Cornerstone is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Act and state law counterparts.

Federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated

third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Additional Legislative and Regulatory Matters. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts involving foreign individuals and certain foreign banks; and (iii) to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign banks that do not have a physical presence in any country. The USA PATRIOT Act also requires the Secretary of the Treasury to prescribe by regulation minimum standards that financial institutions must follow to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the USA PATRIOT Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

Fiscal and Monetary Policy. Banking is a business which depends on interest rate differentials for success. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the major portion of a bank's earnings. Thus, the earnings and growth of Cornerstone are subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve, and the reserve requirements on deposits. The nature and timing of any changes in such policies and their effect on Cornerstone cannot be predicted.

Current and future legislation and the policies established by federal and state regulatory authorities will affect the future operations of Cornerstone. Banking legislation and regulations may limit Cornerstone's growth and the return to their investors by restricting certain of their activities.

In addition, capital requirements could be changed and have the effect of restricting the activities of Cornerstone or requiring additional capital to be maintained. We cannot predict with certainty what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on the business of Cornerstone.

Real Estate Lending Evaluations. The federal regulators have adopted uniform standards for evaluations of loans secured by real estate or made to finance improvements to real estate. Banks are required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its operations. The regulations establish loan to value ratio limitations on real estate loans. Cornerstone's loan policies establish limits on loan to value ratios that are equal to or less than those established in such regulations.

Commercial Real Estate Concentrations. A bank's lending operations may be subject to enhanced scrutiny by federal banking regulators based on the bank's concentration of commercial real estate loans ("CRE loans"). CRE loans generally include land development, construction loans, and loans secured by multifamily property, and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. Guidance issued by

the FDIC prescribes the following guidelines for its examiners to help identify institutions that are potentially exposed to significant CRE loan risk and may warrant greater supervisory scrutiny:

- total reported loans for construction, land development and other land, or ("C&D loans"), represent 100% or more of the institution's total capital; or

- total CRE loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's CRE loan portfolio has increased by 50% or more.

As of December 31, 2016, Cornerstone's C&D loan concentration as a percentage of capital totaled 46.7%, and its CRE concentration, net of owner-occupied loans, as a percentage of capital totaled 203.1%.

Loans to Insiders. A bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve (as adopted and implemented pursuant to FDIC regulations in the case of Cornerstone). Among other things, these provisions require that extensions of credit to insiders be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and do not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of a bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the bank's board of directors.

Prompt Corrective Action. Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the FDIC has established five capital categories ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized"). The FDIC is required to take certain mandatory supervisory actions and is authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of any action taken will depend upon the capital category in which an institution is placed. Generally, subject to a narrow exception, current federal law requires the FDIC to appoint a receiver or conservator for an institution that is critically undercapitalized.

Under the FDIC's rules implementing the prompt corrective action provisions, an insured, state-chartered savings bank that (i) has a total risk-based capital ratio of 10.0% or greater, a tier 1 risk-based capital ratio of 8.0% or greater, a common equity tier 1 risk-based ratio of 6.5% or greater, and a leverage capital ratio of 5.0% or greater, and (ii) is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC, is deemed to be "well capitalized." A bank with a total risk-based capital ratio of 8.0% or greater, a tier 1 risk-based capital ratio of 6.0% or greater, a common equity tier 1 risk-based ratio of 4.5% or greater, and a leverage capital ratio of 4.0% or greater (or 3% or greater in the case of an institution with the highest estimation rating), is considered to be "adequately capitalized." A bank that has a total risk-based capital ratio of less than 8.0%, a tier 1 risk-based capital ratio of less than 6.0%, or a leverage capital ratio of less than 4.0% (or 3.0% in the case of an institution with the highest examination rating), is considered to be "undercapitalized." A bank that has a total risk-based capital ratio of less than 6.0%, a tier 1 risk-based capital ratio of less than 3.0%, a common equity tier 1 risk-based ratio of less than 4.5%, or a leverage capital ratio of less than 3.0%, is considered to be "significantly undercapitalized," and a bank that has a ratio of tangible equity capital to assets less than 2.0% is deemed to be "critically undercapitalized." For purposes of these rules, the term "tangible equity" includes core capital elements counted as tier 1 capital for purposes of the risk-based capital standards (see "—Net Worth and Capital Adequacy Requirements Applicable to Cornerstone" above), plus the

amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets (with certain exceptions). A bank may be deemed to be in a capitalization category lower than indicated by its actual capital position if it receives an unsatisfactory examination rating.

As of June 30, 2017, Cornerstone exceeded all of the applicable regulatory capital ratios to be considered "well capitalized" under the regulatory framework for prompt corrective action.

Economic Environment. The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of financial institutions. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

The Federal Reserve's monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of these policies on the business and earnings of the Company and Cornerstone, or the combined entity if merged, cannot be predicted.

Evolving Legislation and Regulatory Action. Over the last 20 years, Congress has enacted numerous laws, and federal regulations have promulgated extensive regulations, with respect to banks and the business of banking. Cornerstone expects this trend of increasing regulation to continue. New laws or regulations or changes to existing laws and regulations, including changes in interpretation or enforcement, could materially adversely affect our financial condition or results of operations. As a result, the overall financial impact on Cornerstone cannot be anticipated at this time.

February 3, 2017, Executive Order and other Recent Executive Branch Actions. On February 3, 2017, President Trump signed an executive order calling for the administration to review existing U.S. financial laws and regulators, including the Dodd-Frank Act, in order to determine their consistency with a set of "core principles" of financial policy. The core financial principles identified in the executive order include the following: empowering Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth; preventing taxpayer funded bailouts; fostering economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry; enabling American companies to be competitive with foreign firms in domestic and foreign markets; advancing American interests in international financial regulatory negotiations and meetings; and restoring public accountability within federal financial regulatory agencies and "rationalizing" the federal financial regulatory framework. Although the order does not specifically identify any existing laws or regulations that the administration considers to be inconsistent with the core principles, areas that may be identified for reform include the Volcker Rule; any "fiduciary" standard applicable to investment advisers and broker-dealers; and the powers, structure and funding arrangements of the prudential bank regulators, the Securities and Exchange Commission and other federal agencies.

On April 21, 2017, President Trump issued two Presidential Memoranda to the U.S. Secretary of the Treasury. One calls for Treasury to review the Orderly Liquidation Authority established in Title II of the Dodd-Frank Act. The other calls for Treasury to review the process by which the FSOC determines that a nonbank financial company could pose a threat to the financial stability of the United States, subjecting such an entity to supervision by the Federal Reserve and enhanced prudential standards, as well as the process by which the FSOC designates financial market utilities as systemically important. In June 2017, the Treasury issued an initial report in response to the February

3, 2017 executive order, which report set out the following summary recommendations to the President related to reform of the banking sector regulatory framework:

- Improve regulatory efficiency and effectiveness by critically evaluating mandates and regulatory fragmentation, overlap, and duplication across regulatory agencies;
- Align the financial system to help support the U.S. economy;
- Reduce regulatory burden by decreasing unnecessary complexity;
- Tailor the regulatory approach based on size and complexity of regulated firms and require greater regulatory cooperation and coordination among financial regulators; and
- Align regulations to support market liquidity, investment, and lending in the U.S. economy.

While some changes can be implemented by the regulatory agencies themselves, implementing much of the anticipated agenda of changes would require legislation from Congress.

Bank Holding Company Regulation

General. The Company is a bank holding company registered with the Federal Reserve. Bank holding companies are subject to comprehensive regulation by the Federal Reserve under the BHCA, and the regulations of the Federal Reserve. As a bank holding company, the Company is required to file with the Federal Reserve annual reports and certain additional information. The Federal Reserve also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries, including its bank subsidiaries. In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under the BHCA, a bank holding company must obtain Federal Reserve approval before: (i) acquiring, directly or indirectly, ownership or control of any class of voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company. In evaluating applications for acquisitions, the Federal Reserve considers such things as the financial condition and management of the target and the acquirer, the convenience and needs of the communities involved (including CRA ratings) and competitive factors. The BHCA provides that the Federal Reserve may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anti-competitive effects.

The BHCA also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain nonbank activities which, by statute or by Federal Reserve regulations or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the Federal Reserve includes, among other things, operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing

certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; selling money orders, travelers' checks and United States Savings Bonds; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers.

Acquisition of Bank Holding Companies and Banks. Under the BHCA, any company must obtain approval of the Federal Reserve prior to acquiring control of a bank or bank holding company. For purposes of the BHCA, "control" is defined as ownership of more than 25% of any class of voting securities of the entity, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of the entity. The Change in Bank Control Act ("CBCA") and the related regulations of the Federal Reserve require any person or persons acting in concert, to file a written notice with the Federal Reserve before such person or persons may acquire control of a bank or bank holding company. The CBCA defines "control" as the power, directly or indirectly, to vote 25% or more of any voting securities or to direct the management or policies of a bank holding company or an insured bank; however, a rebuttable presumption of control exists upon the acquisition of power to vote 10% or more of a class of voting securities for a company whose securities are registered under the Exchange Act and either the bank holding company has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Interstate Banking. Federal law allows the Federal Reserve to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than the holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The Federal Reserve may not approve the acquisition of a bank that has not been in existence for a minimum of five years without regard for a longer minimum period specified by the law of the host state. The Federal Reserve is prohibited from approving an application if the applicant (and its depository institution affiliates) controls or would control (i) more than 10% of the insured deposits in the United States, or (ii) 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Federal law does not limit a state's authority to restrict the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit.

The federal banking agencies are also authorized to approve interstate merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks has adopted a law opting out of the interstate mergers. Interstate acquisitions of branches are permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions are subject to the nationwide and statewide insured deposit concentration amounts described above. North Carolina have enacted legislation generally permitting interstate banking acquisitions.

The Dodd-Frank Act allows national and state banks to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state.

Dividends; Stock Repurchases. The Federal Reserve has issued a joint interagency statement on the payment of cash dividends by banking organizations, which expresses the Federal Reserve's view that in setting dividend levels, a banking organization should consider its ongoing earnings capacity, the adequacy of its loan loss allowance, and the overall effect that a dividend payout would have on its cost of funding, its capital position, and, consequently, its ability to serve the expected needs of creditworthy borrowers. Banking organizations should not maintain a level of cash dividends that is inconsistent with the organization's capital position, that could weaken the

organization's overall financial health, or that could impair its ability to meet the needs of creditworthy borrowers. Supervisors will continue to review the dividend policies of individual banking organizations and will take action when dividend policies are found to be inconsistent with sound capital and lending policies.

The Federal Reserve has also issued a supervisory letter (SR 09-4) to provide greater clarity regarding payment of dividends. The letter largely reiterates Federal Reserve supervisory policies and guidance, and heightens expectations that a bank holding company will inform and consult with the Federal Reserve supervisory staff sufficiently in advance of (i) declaring and paying a dividend that could raise safety and soundness concerns (i.e. declaring and paying a dividend that exceeds earnings for the period which the dividend is being paid); (ii) redeeming or repurchasing regulatory capital instruments when the bank holding company is experiencing financial weakness; or (iii) redeeming or repurchasing common stock or perpetual preferred stock that could result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past four quarters is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve also indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrower funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve, the Federal Reserve may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized". See *"Depository Institution Regulation – Prompt Corrective Regulatory Action"* above.

As a North Carolina corporation, the Company's ability to pay dividends is also subject to the restrictions of North Carolina law applicable to the declaration of distributions to shareholders by a business corporation. Under such provisions, distributions, including cash dividends, may not be paid if, after giving effect to such cash dividend or other distribution, a corporation would not be able to pay its debts as they become due in the usual course of business or the corporation's total assets would be less than the sum of its liabilities plus the amount that would be needed to satisfy certain preferential liquidation rights.

Subject to certain exceptions, bank holding companies are required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purpose or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of their consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order, directive, or any condition imposed by, or written agreement with the Federal Reserve.

LEGAL MATTERS

Certain legal matters in connection with the First Step Merger will be passed upon for the Company and Cornerstone by Brooks, Pierce, McLendon, Humphrey & Leonard, LLP, Greensboro, North Carolina. Certain legal matters in connection with the First Step Merger will be passed upon for PBC, the Merger Sub and Providence Bank by Wyrick Robbins Yates & Ponton, LLP.

OTHER MATTERS

The Board of Directors of the Company knows of no other business that will be brought before the special meeting. Should other matters properly come before the special meeting, the proxies will be authorized to vote shares represented by each appointment of proxy in accordance with their best judgment on such matters.

ANNUAL MEETING AND FUTURE SHAREHOLDER PROPOSALS

If the First Step Merger is consummated, the Company will be merged with and into PBC and no further meetings of the Company's shareholders will occur. If the First Step Merger is not consummated, it is anticipated that the Company's 2018 annual meeting of shareholders will be held on a date during May of 2018. In accordance with the Company's bylaws, shareholders of the Company desiring to make director nominations to the Company's Board must deliver such written nominations to the Company's Corporate Secretary at 3710 Nash Street, Wilson, NC 27896 not less than 60 days and not more than 90 days prior to the date of such meeting.

WHERE YOU CAN FIND MORE INFORMATION

The Company is not subject to the informational reporting requirements of the Exchange Act. Therefore, it is not required to file periodic reports, proxy statements, and other informational statements with the Securities and Exchange Commission or the FDIC pursuant to the Exchange Act. Cornerstone, however, files periodic reports of condition and income, or call reports, with the FDIC. Cornerstone's call reports are available electronically through the FDIC website, *www.fdic.gov/bank/statistical/*. Physical copies of the call reports can be requested through the respective corporate secretary of the Banks at the applicable address below.

Additional information about the Company is also available at its web site, http://www.thecornerstonebank.com. A copy of the Company's 2016 Annual Report accompanies this proxy statement and contains its consolidated financial statements for the fiscal year ended December 31, 2016, which statements have been audited by Cherry Bekaert LLP. Additional financial information can also be found and obtained under the "Investor Relations" section of the Company's website or upon written or oral request to David W. Woodard, Corporate Secretary, CB Financial Corporation, 3710 Nash Street, Wilson, NC 27896, (252) 243-5588.

Information included in the websites of the Company or Cornerstone, or any other websites, does not form any part of this proxy statement.

We have not authorized anyone to give any information or make any representation about the Reorganization, the Mergers, the Equity Offering or the Dividend, the Company, Cornerstone, PBC, the Merger Sub or Providence Bank that is different from, or in addition to, that contained in this proxy statement. Therefore, if anyone does give you information of this sort, you should not rely on it. The information contained in this proxy statement speaks only as of the date of this proxy statement unless the information specifically indicates that another date applies.