Carolina ALLIANCE BANK™
Here for You. Every Day.

Dear Fellow Shareholders:

The excitement that has occurred throughout 2014 at Carolina Alliance Bank has certainly continued through the third quarter. Carolina Alliance declared its first stock dividend for our loyal shareholders and experienced the "core" earnings and balance sheet growth that we expected to follow the merger with Forest Commercial Bank ("FCB"). Additionally, the recently acquired operations of Dave McBride Leasing, LLC in South Carolina have been a natural complement to the excellent leasing operation that Charles Shepherd leads in Charlotte, North Carolina. While our team continues to work on improving systems and processes every day, we are very pleased with our progress to date. The Board and senior staff are also working hard on strategic planning efforts at several levels to ensure that the bank remains a solid performer in the future. We are enthusiastic and energized about our plans and the bank's future.

We are pleased to present our third quarter financial results. As has been noted in prior communications, the 2014 financial results are materially impacted by branch start-up costs and the accounting for merger-related items. As a result, in the following narrative we will isolate the financial statement impact of those items in order to assist in the comparison of 2014 to 2013. Third quarter highlights from the attached condensed financial statements are as follows:

- Net income available to common shareholders was $5.6 million for the nine months ended September 30, 2014. This compares to $0.7 million for the same period in 2013. This $4.9 million increase in earnings was largely attributable to the impact of merger-related accounting, particularly the non-operating net bargain purchase gain of $4.4 million related to mark-to-market adjustments to the FCB balance sheet as of the merger date (more details are shown in the following non-GAAP operating earnings table and in the tables which follow this letter.) Partially offsetting this gain were expenses of approximately $0.6 million that management considers to be "non-core," which include merger costs and start-up losses associated with the bank's recently opened branches in Seneca and Anderson, South Carolina.

  The following is a reconciliation of net income as reported for generally accepted accounting principles ("GAAP") and the non-GAAP measure of operating earnings used by management to evaluate and compare our operating results from period to period.

CAROLINA ALLIANCE BANK
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Month Periods Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Income before income taxes, as reported	$1,351,820	$ 361,872	$6,784,316	$1,330,880
Non-operating items:				
Bargain purchase gain on merger	(46)	-	(4,357,544)	-
Merger related costs	47,331	-	587,253	-
Branch expansion related costs	116,828	-	376,465	-
Pre-tax operating earnings	1,515,933	361,872	3,390,490	1,330,880
Income taxes, as reported	511,381	175,000	1,111,381	564,000
Tax benefits (expenses) from non-operating items:				
Bargain purchase gain on merger	(4)	-	(92,084)	-
Merger related items	6,877	-	171,313	-
Branch expansion related costs	43,810	-	141,174	-
Income taxes on pre-tax operating earnings	562,064	175,000	1,331,784	564,000
Net income, as reported	840,439	186,872	5,672,935	766,880
Tax-effected non-operating items:				
Bargain purchase gain on merger	(42)	-	(4,265,460)	-
Merger related costs	40,454	-	415,940	-
Branch expansion related costs	73,018	-	235,291	-
Operating earnings (net income excluding merger and branch expansion costs)	$ 953,869	$ 186,872	$2,058,706	$ 766,880

We have presented certain information in the table above on a non-GAAP basis. We believe that the non-GAAP measures above are useful because they enhance the ability of shareholders and management to evaluate and compare our operating results from period to period in a meaningful manner. However, these non-GAAP measures should not be considered as an alternative to any measure of performance as promulgated under GAAP. Non-GAAP measures have limitations as analytical tools, and shareholders should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP.

- Total assets stood at $416.5 million at September 30, 2014, an increase of $172.1 million from $244.4 million at September 30, 2013. At the merger date, FCB's total assets totaled $156.6 million.

- At September 30, 2014, gross loans and leases totaled $323.3 million, an increase of approximately $145.1 million from the $178.2 million gross loans and leases total at September 30, 2013. FCB's gross loans and leases totaled approximately $123.5 million as of the merger date.

- Total deposits increased to $345.5 million at September 30, 2014 from $202.3 million on September 30, 2013, with FCB deposits at the merger date totaling $128.1 million.

- Total shareholders' equity was $51.6 million at September 30, 2014 compared to $31.7 million at September 30, 2013, with FCB total shareholders' equity at the merger date totaling $18.4 million. The bank's capital levels continue to exceed the minimum standards necessary to be classified by federal regulatory agencies as "well-capitalized."

- Non-performing assets as a percentage of total assets at September 30, 2014 increased from a year prior, in part due to real estate acquired in settlement of loans of $0.7 million absorbed in the merger. Non-performing assets were $3.1 million at September 30, 2014, or 0.74% of total assets, as compared to $1.7 million, or 0.69% of total assets, at September 30, 2013.

We are fortunate to work with such a capable Board of Directors, whose contributions are critical to our bank's success, that we believe the following portion of our most recent shareholder correspondence bears repeating:

> "We must also thank and praise our merged Board of Directors for everything they have done in the last six months as we work to develop plans and systems for the new bank. These dedicated ladies and gentlemen have spent many hours meeting and traveling, analyzing and deliberating, to make sure the bank remains on sound footing in all aspects of our operations. We are fortunate to have business leaders who are willing to commit the time and energy to make Carolina Alliance the first-class banking institution that it is and, under their guidance, we believe will continue to be."

We are also very pleased to commend our teams in both Carolinas on their community involvement. It is our belief that a key role of a community bank is to support the communities where we do business whenever and however we can and that the success of our bank is directly related to the success of the communities that we serve. Our staff members are committed to these ideals and to our communities. We fully anticipate that this attitude of service to our communities will increase in 2015 and beyond as we settle in to our multi-market roles and responsibilities.

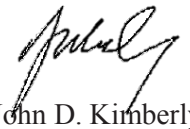
We hope you are keeping up with the activities of the bank and its people through one or more of the delivery channels we use. Whether through the quarterly newsletters or via the internet, it is our goal to keep you informed of our activities at the bank and our interaction with the community. If you need to be added to our email list, need help with the electronic media, or have any questions, please let us know by calling us at (864) 208-BANK (2265) or emailing us at info@carolinaalliancebank.com.

We truly thank you, our loyal shareholders, for your continuing support of our bank. If there are opportunities at any time for banking services that we can provide to you, we would welcome a call or email to allow us to explore the situation with you. Continued growth in quality loans, deposits, and net income will be beneficial to our bank. Please let us know how we can work together!

Yours truly,



John S. Poole
Chief Executive Officer



John D. Kimberly
President

Certain statements in this letter contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to future plans and expectations, and are thus prospective. Such forward-looking statements are subject to risks, uncertainties, and other factors, such as a continued downturn in the economy, competitive pressures among depository and other financial institutions, the rate of delinquencies and amounts of charge-offs, the level of allowance for loan loss, the rates of loan growth, or adverse changes in asset quality in the Bank's loan portfolios, and changes in the U.S. legal and regulatory framework, including the effect of recent financial reform legislation on the banking industry, any of which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate. Therefore, we can give no assurance that the results contemplated in the forward-looking statements will be realized. The inclusion of this forward-looking information should not be construed as a representation by the Bank or any person that the future events, plans, or expectations contemplated by the Bank will be achieved. All subsequent written and oral forward-looking statements concerning the Bank or any person acting on its behalf is expressly qualified in its entirety by the cautionary statements above. The Bank undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, to reflect circumstances or events that occur after the date the forward-looking statements are made.

CAROLINA ALLIANCE BANK
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 2014	December 31, 2013	September 30, 2013
Assets			
Cash and due from banks	$ 8,477,941	$ 5,692,846	$ 5,363,565
Federal funds sold and interest bearing bank balances	7,519,644	7,578,115	8,867,380
Investment securities available for sale	61,904,138	44,547,635	45,100,345
Other investments	830,500	389,000	389,000
Loans and leases, net of allowance for losses (see "Asset Quality Data")	320,005,159	179,330,714	174,709,029
Premises and equipment, net	7,188,113	6,699,194	6,711,346
Leased assets	3,764,114	-	-
Accrued interest	1,006,301	705,547	693,660
Other assets	5,833,933	2,441,562	2,516,372
Total assets	$ 416,529,843	$ 247,384,613	$ 244,350,697
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	$ 345,491,317	$ 203,499,827	$ 202,307,275
Other borrowings	16,825,464	11,142,253	8,972,058
Accrued interest	58,563	44,428	43,674
Accrued expenses and other	2,573,934	720,233	1,357,176
Total liabilities	364,949,278	215,406,741	212,680,183
Shareholders' equity:			
Preferred stock	5,000	5,000	5,000
Common stock	4,134,711	2,511,959	2,506,594
Additional paid in capital	40,947,150	28,969,360	28,925,368
Retained earnings	6,278,638	643,204	339,791
Accumulated other comprehensive income (loss)	215,066	(151,651)	(106,239)
Total shareholders' equity	51,580,565	31,977,872	31,670,514
Total liabilities and shareholders' equity	$ 416,529,843	$ 247,384,613	$ 244,350,697
Book value per common share [1]	$ 10.22	$ 9.77	$ 9.68

[1] Per share amounts have been adjusted for 10% stock dividend declared on September 5, 2014.

REGULATORY CAPITAL AS OF SEPTEMBER 30, 2014

	Actual		Minimum to be Classified "Well Capitalized"	
	Amount	Ratio	Amount	Ratio
	(Amounts in $000)			
Total capital (to risk weighted assets)	$ 52,414	15.2%	$ 34,584	10.0%
Tier 1 capital (to risk weighted assets)	$ 49,062	14.2%	$ 20,750	6.0%
Tier 1 capital (to average assets)	$ 49,062	11.7%	$ 20,891	5.0%

CAROLINA ALLIANCE BANK
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Month Periods Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest Income:				
Loans and leases	$ 4,023,372	$ 2,135,942	$ 9,878,357	$ 6,389,761
Investment securities	344,802	232,687	969,918	725,828
Federal funds sold and bank deposits	6,227	11,930	22,292	41,237
Total interest income	4,374,401	2,380,559	10,870,567	7,156,826
Interest Expense:				
Deposits	268,443	173,835	681,672	571,414
Other borrowings	29,006	21,537	76,118	70,771
Total interest expense	297,449	195,372	757,790	642,185
Net Interest Income	4,076,952	2,185,187	10,112,777	6,514,641
Provision for Loan Losses	180,001	75,000	490,003	475,000
Net Interest Income after Provision for Loan Losses	3,896,951	2,110,187	9,622,774	6,039,641
Non-Interest Income:				
Operating lease income	356,493	-	706,785	-
Service charges on deposit accounts	79,825	60,323	215,931	178,650
Mortgage brokerage	50,113	16,662	87,382	52,467
Gain on sale of investment securities	18,573	-	18,573	-
Gain on sale of assets	120,275	1,930	167,358	25,377
Bargain purchase gain	46	-	4,357,544	-
Other income	70,925	51,364	167,821	143,835
Total non-interest income	696,250	130,279	5,721,394	400,329
Non-Interest Expense:				
Salaries and employee benefits	1,781,357	1,027,435	4,625,574	3,013,838
Occupancy and equipment	293,374	136,944	693,690	398,930
Operating lease expense	318,580	-	630,625	-
Data processing	279,594	145,388	680,702	424,636
Marketing	62,703	48,911	197,738	159,254
Postage, supplies and printing	34,792	18,252	94,584	64,561
Other expense	470,981	501,664	1,636,939	1,047,871
Total non-interest expense	3,241,381	1,878,594	8,559,852	5,109,090
Income Before Income Taxes	1,351,820	361,872	6,784,316	1,330,880
Income Tax Expense	511,381	175,000	1,111,381	564,000
Net Income	840,439	186,872	5,672,935	766,880
Preferred Dividends Declared	12,500	12,500	37,500	37,500
Net Income Available to Common Shareholders	$ 827,939	$ 174,372	$ 5,635,435	$ 729,380
Basic and Diluted[(1)]:				
Net income per common share	$ 0.18	$ 0.06	$ 1.43	$ 0.26
Weighted average common shares outstanding	4,557,147	2,757,253	3,939,966	2,756,896

[(1)] Share and per share amounts have been adjusted for 10% stock dividend declared on September 5, 2014.

CAROLINA ALLIANCE BANK
OTHER FINANCIAL DATA
(Unaudited)

ASSET QUALITY DATA

	September 30, 2014	December 31, 2013	September 30, 2013
Gross loans[(1)]	$ 323,332,151	$ 182,845,748	$ 178,229,873
Allowance for loan losses	3,326,992	3,515,034	3,520,844
Net loans	$ 320,005,159	$ 179,330,714	$ 174,709,029
Allowance as a percent of gross loans	1.03%	1.92%	1.98%
Loans (charged off)/recovered (year to date)	$ (678,046)	$ (42,409)	$ (36,599)
Loans charged off as a percent of gross loans	-0.21%	-0.02%	-0.02%
Loans past due 30-89 days	$ 2,046,433	$ 1,068,837	$ 101,960
Non-accrual loans	$ 1,538,919	$ 670,074	$ 507,515
Real estate acquired in settlement of loans	1,544,594	1,108,731	1,147,970
Repossessed property acquired in settlement of loans	-	-	20,970
Total non-performing assets	$ 3,083,513	$ 1,778,805	$ 1,676,455
Non-accrual loans as a percent of gross loans	0.48%	0.37%	0.41%
Non-performing assets as a percent of total assets	0.74%	0.72%	0.69%
Net losses on real estate acquired in settlement of loans	$ 31,780	$ 39,239	$ -

[(1)] "Loans" as used in this schedule include finance leases

CAROLINA ALLIANCE BANK
OTHER FINANCIAL DATA
(Unaudited)

SELECTED YEAR-TO-DATE AVERAGES

	As of and for the Nine Months Ended September 30,					
	2014			2013		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	$ 7,519,644	$ 11,621,618	0.26%	$ 8,867,380	$ 11,916,667	0.46%
Investment securities	61,904,138	56,603,345	2.24%	45,100,345	45,909,522	2.09%
Other investments	830,500	658,469	4.07%	389,000	407,059	2.53%
Loans and leases, gross	323,332,150	265,127,364	4.98%	178,229,874	172,825,288	4.94%
Total earning assets and yield	$ 393,586,432	$ 334,010,796	4.35%	$ 232,586,599	$ 231,058,536	4.14%
Liabilities:						
Non-interest bearing demand deposits	$ 53,606,139	$ 40,905,427	0.00%	$ 25,825,202	$ 24,411,364	0.00%
Interest-bearing demand deposits	24,597,709	23,818,366	0.14%	20,373,616	17,485,888	0.15%
Savings deposits	37,056,213	23,873,353	0.27%	4,311,283	2,865,856	0.14%
Money market accounts	133,440,923	118,158,761	0.33%	94,924,758	96,790,521	0.37%
Time deposits	96,790,333	85,091,072	0.73%	56,872,415	59,396,736	0.63%
Total deposits and cost of deposits	345,491,317	291,846,979	0.31%	202,307,274	200,950,365	0.38%
Federal funds purchased	1,065,000	485,596	0.66%	-	-	0.00%
Securities sold under agreements to repurchase	6,760,464	8,644,315	0.33%	7,972,058	7,667,032	0.36%
FHLB advances	7,500,000	6,272,894	1.11%	1,000,000	1,853,480	3.58%
Total interest-bearing liabilities and cost of funds	$ 360,816,781	$ 307,249,784	0.33%	$ 211,279,332	$ 210,470,877	0.41%
Total earning assets and net interest margin	$ 393,586,432	$ 334,010,796	4.05%	$ 232,586,599	$ 231,058,536	3.77%

Carolina Alliance Bank ("CAB")
Forest Commercial Bank ("FCB")
Purchase Price Allocation
As of September 30, 2014
(Unaudited)

Purchase price consideration in common stock:			
FCB common shares outstanding		2,182,008	
Dissenters' shares paid in cash		(32,617)	
		2,149,391	
Exchange ratio		0.755	
CAB shares issued		1,622,790	
Fractional shares paid in cash		(44)	
		1,622,746	
Market value of CAB stock (per share) (1)		$ 8.34	
Market value of CAB shares issued			$ 13,540,796
FCB's common shareholders' equity immediately prior to closing		$ 18,386,061	
Adjustments to reflect assets acquired at fair value:			
Core deposit intangible	$ 1,125,940		
Loans:			
Interest rate fair value adjustment	(2,348,193)		
Credit fair value adjustment	(1,810,392)		
Elimination of allowance for loan losses	1,552,488		
Leases:			
Credit fair value adjustment	(115,078)		
Interest rate fair value adjustment	(57,211)		
Elimination of allowance for lease losses	149,863		
Deferred tax asset on valuation adjustments	1,433,058		
Adjustments to reflect liabilities assumed at fair value:			
Time deposit interest rate fair value adjustment	(418,196)		
Total adjustments to FCB book value		(487,721)	
Adjusted FCB common shareholders' equity			17,898,340
Bargain purchase gain			$ 4,357,544

(1) The volume weighted average price traded on the OTCBB for the 30 days prior to the closing date.