August 3, 2015

Dear Fellow Shareholders:

The summer of 2015 has been unusually warm and, not surprisingly, activity related to the merger of Pinnacle Bank and Carolina Alliance has begun to heat up as well, with multiple taskforces involving folks at both banks coming together to develop detailed merger integration plans. The cooperation and comradery have been outstanding, and we are very grateful for these teams of banking professionals and the excellent work that they are doing as we prepare for an early fourth quarter combination.

This past quarter has been challenging for the bank on several fronts. Our loan pipeline has been strong; however, over the past couple of months, movement of loans from the pipeline to loan closing, for various reasons, has been slower than we have desired. Additionally, we have had a number of customers pay down lines of credit due to improved cash flows or sales of property, both of which have negatively impacted loan levels in the short term. Nevertheless, we are optimistically looking toward the third quarter for better movement of loans from the pipeline to closing.

You will also see in the attached financial reports that merger expenses, which total $319,000 through June 30, have significantly affected second quarter profitability. These costs are an unavoidable reality of growth through a combination with another institution and will continue through the closing of the merger. The costs were factored into our initial merger analysis, and we view them as a worthy investment in the long-term future of the bank.

On a more positive note, our leasing operations in both states are thriving, with combined growth of over $2.1 million in this last quarter. Our commercial bankers have embraced the leasing program and are seeking and referring lease opportunities to the leasing area. Our leasing personnel are committed to excellent customer service as well as appropriate underwriting. This growing line of business is a key component of our strategic plan, and we believe that it will contribute substantially to the bank's long-term success.

The financial report through June 30, 2015 follows below and in attachments to this letter. The following are highlights of our financial results.

- Net income available to common shareholders was $0.8 million for the six months ended June 30, 2015. This compares to $4.8 million for the same period in 2014. This $4.0 million decrease in earnings was largely attributable to the impact of merger-related accounting on 2014 results, which included a non-recurring non-operating net bargain purchase gain of $4.4 million related to the merger with Forest Commercial Bank in 2014. Partially offsetting this decrease were increased core earnings due to the increase in earning assets from the merger with Forest Commercial.

- Total assets stood at $432.8 million at June 30, 2015, an increase of $22.4 million from $410.4 million at June 30, 2014.

- At June 30, 2015, gross loans and leases totaled $341.0 million, an increase of approximately $27.6 million from the $313.4 million gross loans and leases total at June 30, 2014.

- Total deposits increased to $355.9 million at June 30, 2015 from $340.3 million on June 30, 2014.

- Total shareholders' equity was $52.9 million at June 30, 2015 compared to $50.7 million at June 30, 2014. 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 June 30, 2015 decreased slightly to 0.72% from a year prior at 0.79%. Non-performing assets were $3.1 million at June 30, 2015, as compared to $3.2 million at June 30, 2014.

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 such as Facebook or Twitter reports, or have any questions, please let us know by calling (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 your bank, so please let us know how we can work together.

Thank you for your continuing support.

Yours truly,





John S. Poole
Chief Executive Officer

John D. Kimberly
President

Note

Certain statements in this letter contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to future plans and expectations, and are thus prospective. Such forward-looking statements are subject to risks, uncertainties, and other factors, such as the businesses of Carolina Alliance and Pinnacle may not be integrated successfully or such integration may take longer to accomplish than expected; the expected cost savings and any revenue synergies from the merger may not be fully realized within the expected timeframes; disruption from the merger may make it more difficult to maintain relationships with clients, associates or suppliers; the required governmental approvals of the merger may not be obtained on the proposed terms and schedule; an economic downturn nationally or in the local markets we serve; competitive pressures among depository and other financial institutions; the rate of delinquencies and amounts of charge-offs; the level of allowance for loan loss; the rates of loan growth or adverse changes in asset quality in the banks' 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.

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CAROLINA ALLIANCE BANK
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2015	December 31, 2014	June 30, 2014
Assets			
Cash and due from banks	$ 10,472,844	$ 6,698,634	$ 8,849,325
Federal funds sold and interest bearing bank balances	4,019,277	5,453,691	10,462,323
Investment securities available for sale	63,445,041	60,776,574	63,413,792
Other investments	1,184,000	1,262,500	785,500
Loans and leases, net of allowance for losses (see "Asset Quality Data")	336,660,086	326,872,734	309,534,782
Premises and equipment, net	6,993,994	7,165,761	7,172,824
Leased assets	4,690,531	3,648,196	3,374,848
Accrued interest	1,073,318	1,111,812	1,047,010
Other assets	4,280,366	4,809,597	5,806,662
Total assets	$ 432,819,457	$ 417,799,499	$ 410,447,066
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	$ 355,856,223	$ 338,391,498	$ 340,349,857
Other borrowings	22,568,456	25,592,085	16,931,507
Accrued interest	57,871	59,050	71,516
Accrued expenses and other	1,434,166	1,487,422	2,394,570
Total liabilities	379,916,716	365,530,055	359,747,450
Shareholders' equity:			
Preferred stock	5,000	5,000	5,000
Common stock	4,569,142	4,560,733	4,134,705
Additional paid in capital	44,559,623	44,531,008	40,930,000
Retained earnings	3,640,499	2,841,532	5,450,700
Accumulated other comprehensive income (loss)	128,477	331,171	179,211
Total shareholders' equity	52,902,741	52,269,444	50,699,616
Total liabilities and shareholders' equity	$ 432,819,457	$ 417,799,499	$ 410,447,066
Book value per common share[1]	$ 10.49	$ 10.37	$ 10.04

[1] June 30, 2014 per share amounts have been retroactively adjusted for the September 2014 10% stock dividend.

REGULATORY CAPITAL AS OF JUNE 30, 2015

	Actual		Minimum to be Classified "Well Capitalized"	
	Amount	Ratio	Amount	Ratio
	(Amounts in $000)			
Common equity tier 1 capital (to risk weighted assets)	$ 47,561	11.3%	$ 27,280	6.5%
Tier 1 capital (to risk weighted assets)	$ 52,531	12.5%	$ 33,575	8.0%
Total capital (to risk weighted assets)	$ 56,889	13.6%	$ 41,968	10.0%
Tier 1 capital (to average assets)	$ 52,531	12.3%	$ 21,364	5.0%

CAROLINA ALLIANCE BANK
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Six Month Periods Ended June 30, 2015 and 2014
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest Income:				
Loans and leases	$3,992,238	$3,719,542	$8,006,769	$5,854,985
Investment securities	331,370	369,943	660,323	625,116
Federal funds sold and bank deposits	13,590	10,162	16,637	16,065
Total interest income	4,337,198	4,099,647	8,683,729	6,496,166
Interest Expense:				
Deposits	267,554	249,267	525,257	413,229
Other borrowings	29,773	31,061	64,462	47,112
Total interest expense	297,327	280,328	589,719	460,341
Net Interest Income	4,039,871	3,819,319	8,094,010	6,035,825
Provision for Loan Losses	228,342	155,001	458,543	310,002
Net Interest Income after Provision for Loan Losses	3,811,529	3,664,318	7,635,467	5,725,823
Non-Interest Income:				
Operating lease income	449,168	350,292	872,448	350,292
Service charges on deposit accounts	75,055	73,330	149,991	136,106
Mortgage brokerage	65,287	29,222	126,144	37,269
Gain (loss) on sale of investment securities	(8,383)	-	(8,383)	-
Gain on sale of assets	9,019	27,083	44,019	47,083
Bargain purchase gain	-	4,357,498	-	4,357,498
Other income	77,676	54,862	159,469	96,896
Total non-interest income	667,822	4,892,287	1,343,688	5,025,144
Non-Interest Expense:				
Salaries and employee benefits	1,890,463	1,733,702	3,842,407	2,844,217
Occupancy and equipment	316,250	249,281	626,046	400,316
Operating lease expense	384,656	312,045	759,042	312,045
Data processing	296,758	229,440	591,941	401,108
Marketing	95,549	113,300	141,763	135,035
Postage, supplies and printing	41,449	36,723	74,302	59,792
Other expense	861,103	822,836	1,469,688	1,165,958
Total non-interest expense	3,886,228	3,497,327	7,505,189	5,318,471
Income Before Income Taxes	593,123	5,059,278	1,473,966	5,432,496
Income Tax Expense	289,712	458,000	650,000	600,000
Net Income	303,411	4,601,278	823,966	4,832,496
Preferred Dividends Declared	12,500	12,500	25,000	25,000
Net Income Available to Common Shareholders	$ 290,911	$4,588,778	$ 798,966	$4,807,496
Basic Net Income per Common Share[(1)]:	$ 0.06	$ 1.02	$ 0.18	$ 1.32
Diluted Net Income per Common Share[(1)]:	$ 0.06	$ 1.02	$ 0.17	$ 1.32
Weighted Average Common Shares Outstanding[(1)]:				
Basic	4,563,015	4,495,417	4,561,844	3,636,157
Diluted	4,677,992	4,495,417	4,664,470	3,636,157

[(1)] 2014 share and per share amounts have been retroactively adjusted for 2014 10% stock dividend.

CAROLINA ALLIANCE BANK
OTHER FINANCIAL DATA
(Unaudited)

ASSET QUALITY DATA

	June 30, 2015	December 31, 2014	June 30, 2014
Gross loans[(1)]	$340,993,240	$330,819,139	$313,359,272
Allowance for loan losses	4,333,154	3,946,405	3,824,490
Net loans	$336,660,086	$326,872,734	$309,534,782
Allowance as a percent of gross loans	1.27%	1.19%	1.22%
Loans charged off, net of recoveries (year to date)	$ 71,794	$ 666,758	$ 546
Net loans charged off as a percent of gross loans	0.02%	0.20%	0.00%
Loans past due 30-89 days	$ 1,513,265	$ 674,649	$ 2,068,959
Non-accrual loans	$ 1,841,982	$ 2,374,279	$ 1,704,586
Real estate acquired in settlement of loans	1,263,709	1,684,101	1,544,594
Total non-performing assets	$ 3,105,691	$ 4,058,380	$ 3,249,180
Non-accrual loans as a percent of gross loans	0.54%	0.72%	0.54%
Non-performing assets as a percent of total assets	0.72%	0.97%	0.79%
Net losses on real estate or repossessed property acquired in settlement of loans	$ 37,378	$ 15,310	$ 31,780

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

CAROLINA ALLIANCE BANK
OTHER FINANCIAL DATA
(Unaudited)

SELECTED YEAR-TO-DATE AVERAGES

	As of and for the Six Months Ended June 30,					
	2015			2014		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	$ 4,019,277	$ 6,133,225	0.55%	$ 10,462,323	$ 9,348,966	0.35%
Investment securities	63,445,041	60,527,986	2.12%	63,413,792	53,840,179	2.29%
Other investments	1,184,000	1,246,862	3.74%	785,500	576,746	4.42%
Loans and leases, gross	340,993,240	335,802,161	4.81%	313,359,272	240,111,080	4.92%
Total earning assets and yield	$409,641,558	$403,710,234	4.34%	$388,020,887	$303,876,971	4.31%
Liabilities:						
Non-interest-bearing demand deposits	$ 55,838,446	$ 52,783,212	0.00%	$ 45,853,470	$ 35,144,112	0.00%
Interest-bearing demand deposits	35,052,272	28,767,910	0.16%	25,395,089	22,998,337	0.14%
Savings deposits	36,852,220	35,890,543	0.26%	35,443,947	17,589,657	0.27%
Money market accounts	128,967,518	131,112,847	0.35%	132,537,353	109,949,034	0.33%
Time deposits	99,145,767	96,458,706	0.79%	101,119,998	77,412,036	0.69%
Total deposits and cost of deposits	355,856,223	345,013,218	0.31%	340,349,857	263,093,176	0.32%
Federal funds purchased	-	820,600	0.54%	-	334,131	1.43%
Securities sold under agreements to repurchase	4,568,456	5,929,167	0.30%	8,431,507	9,374,022	0.33%
FHLB advances	18,000,000	19,199,787	0.51%	8,500,000	4,580,110	1.29%
Other	300,000	300,000	2.98%	-	-	0.00%
Total interest-bearing liabilities and cost of funds	$378,724,679	$371,262,772	0.32%	$357,281,364	$277,381,439	0.33%
Total earning assets and net interest margin	$409,641,558	$403,710,234	4.04%	$388,020,887	$303,876,971	4.01%