November 9, 2015

Dear Fellow Shareholders:

It is hard to believe that it is time for another quarterly update. Since our letter in early August, we have successfully closed on the highly anticipated merger with Pinnacle Bank of South Carolina and its holding company, PBSC Financial Corporation, and we sincerely welcome the Pinnacle shareholders, customers, and staff to the Carolina Alliance family. Any successful merger takes a significant amount of effort, and this merger was no exception. We truly thank everyone at Pinnacle and Carolina Alliance for their endeavors to make this combination a success. We are now over a month into the consolidation, and the combined team is well on its way to a fully successful integration and customer service experience in our new markets under the leadership of our South Carolina Western Region President, David Barnett.

In addition to the merger commitment, our team has been working very hard to update many of the bank's operating systems to position us to maintain our high level of service quality and operating efficiency as we grow. Improvements are being made in electronic banking, cash management, enterprise risk management, and loan and deposit operations, to name just a few. We are grateful for our engaged Board of Directors, particularly the Board's Strategic Planning Committee chaired by Lou Bissette, for overseeing these processes and improvements.

Loan growth continues to be a challenge. While we are seeing increased loan closings over the prior year, we are also experiencing significant loan payouts. Nevertheless, we are generally pleased with our new loan volume and most of the payouts have not been due to attrition to competing banks. We are not pleased, however, with the resulting net loan growth and, as a result, we are increasing our focus in the lending area which will be a priority for the remainder of 2015.

Merger expenses, which totaled $462,000 through September 30, 2015, significantly impacted profitability for the nine months ended September 30, 2015. As noted last quarter, these costs are unavoidable and were factored into our initial merger analysis, and we view them as a worthy investment in the long-term future of the bank.

We remain pleased with the operations of both our mortgage operations and our leasing offices. We believe both business lines will be bolstered by opportunities in the new markets represented by Pinnacle.

The financial reports though September 30, 2015 follow this letter. The following are highlights of our financial results.[1]

- Net income available to common shareholders was $1.2 million for the nine months ended September 30, 2015. This compares to $5.6 million for the same period in 2014. This $4.4 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.

[1] Balance sheet data as of September 30, 2015 does not reflect the previously announced merger with Pinnacle; however, the impact of merger-related expenses associated with the Pinnacle merger incurred to date are reflected in the results of operations for the nine-month period ended September 30, 2015.

The comparability of the nine-month periods is affected by the fact that the operating results of the former Forest Commercial Bank operations prior to April 5, 2014 are not included in the Statement of Income for the nine-month period ended September 30, 2014. Net income available to common shareholders was $352,000 and $828,000 for the quarters ended September 30, 2015 and 2014, respectively. The decrease of $476,000 was attributable to increased merger expenses, increased write-downs of Other Real Estate Owned, decreased mortgage brokerage income, and a decrease in gains on the sale of investments and assets in the quarter ended September 30, 2015.

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, 2015 and 2014
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Income before income taxes, as reported	$ 854,537	$ 1,351,820	$ 2,328,503	$ 6,784,316
Non-operating items:				
Bargain purchase gain on merger	-	(46)	-	(4,357,544)
Merger related costs	141,711	47,331	461,946	587,253
Pre-tax operating earnings	996,248	1,399,105	2,790,449	3,014,025
Income taxes, as reported	489,955	511,381	1,139,955	1,111,381
Tax benefits (expenses) from non-operating items:				
Bargain purchase gain on merger	-	(4)	-	(92,084)
Merger related items	50,912	6,877	66,547	171,313
Income taxes on pre-tax operating earnings	540,867	518,254	1,206,502	1,190,610
Net income, as reported	364,582	840,439	1,188,548	5,672,935
Tax-effected non-operating items:				
Bargain purchase gain on merger	-	(42)	-	(4,265,460)
Merger related costs	90,799	40,454	395,399	415,940
Operating earnings (net income excluding merger costs)	$ 455,381	$ 880,851	$ 1,583,947	$ 1,823,415

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 $444.3 million at September 30, 2015, an increase of $27.8 million from $416.5 million at September 30, 2014.

- At September 30, 2015, gross loans and leases totaled $350.3 million, an increase of approximately $27.0 million from the $323.3 million gross loans and leases total at September 30, 2014. In anticipation of the Pinnacle merger, on September 30, 2015, substantially all loan participations previously sold to or purchased from Pinnacle were bought from or sold to, respectively, Pinnacle.

The net of purchases and sales accounted for approximately $3.4 million of the increase in loans. Excluding the Pinnacle transactions, loans increased approximately 7% during the 12-month period.

- Total deposits increased to $360.5 million at September 30, 2015 from $345.5 million on September 30, 2014.

- Total shareholders' equity was $53.6 million at September 30, 2015 compared to $51.6 million at September 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 September 30, 2015 decreased slightly to 0.68% from a year prior at 0.74%. Non-performing assets were $3.0 million at September 30, 2015, as compared to $3.1 million at September 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 good 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; 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.

Become a fan facebook

Visit us on the web Carolina ALLIANCE BANK Here for You. Every Day.

Follow us twitter

CAROLINA ALLIANCE BANK
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 2015	December 31, 2014	September 30, 2014
Assets			
Cash and due from banks	$ 5,823,579	$ 6,698,634	$ 8,477,941
Federal funds sold and interest bearing bank balances	3,688,513	5,453,691	7,519,644
Investment securities available for sale	71,163,577	60,776,574	61,904,138
Other investments	1,141,500	1,262,500	830,500
Loans and leases, net of allowance for losses (see "Asset Quality Data")	345,932,875	326,872,734	320,005,159
Premises and equipment, net	6,908,471	7,165,761	7,188,113
Leased assets	4,458,026	3,648,196	3,764,114
Accrued interest	1,141,635	1,111,812	1,006,301
Other assets	4,014,680	4,809,597	5,833,933
Total assets	$ 444,272,856	$ 417,799,499	$ 416,529,843
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	$ 360,515,549	$ 338,391,498	$ 345,491,317
Other borrowings	27,913,491	25,592,085	16,825,464
Accrued interest	62,335	59,050	58,563
Accrued expenses and other	2,136,668	1,487,422	2,573,934
Total liabilities	390,628,043	365,530,055	364,949,278
Shareholders' equity:			
Preferred stock	5,000	5,000	5,000
Common stock	4,573,697	4,560,733	4,134,711
Additional paid in capital	44,703,203	44,531,008	40,947,150
Retained earnings	3,992,580	2,841,532	6,278,638
Accumulated other comprehensive income (loss)	370,333	331,171	215,066
Total shareholders' equity	53,644,813	52,269,444	51,580,565
Total liabilities and shareholders' equity	$ 444,272,856	$ 417,799,499	$ 416,529,843
Book value per common share	$ 10.65	$ 10.37	$ 10.22

REGULATORY CAPITAL AS OF SEPTEMBER 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)	$ 48,062	11.1%	$ 28,112	6.5%
Tier 1 capital (to risk weighted assets)	$ 53,032	12.3%	$ 34,599	8.0%
Total capital (to risk weighted assets)	$ 57,448	13.3%	$ 43,249	10.0%
Tier 1 capital (to average assets)	$ 53,032	12.2%	$ 21,686	5.0%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest Income:				
Loans and leases	$4,171,312	$4,023,372	$12,178,081	$9,878,357
Investment securities	368,824	344,802	1,029,147	969,918
Federal funds sold and bank deposits	8,132	6,227	24,769	22,292
Total interest income	4,548,268	4,374,401	13,231,997	10,870,567
Interest Expense:				
Deposits	275,009	268,443	800,266	681,672
Other borrowings	28,478	29,006	92,940	76,118
Total interest expense	303,487	297,449	893,206	757,790
Net Interest Income	4,244,781	4,076,952	12,338,791	10,112,777
Provision for Loan Losses	226,670	180,001	685,213	490,003
Net Interest Income after Provision for Loan Losses	4,018,111	3,896,951	11,653,578	9,622,774
Non-Interest Income:				
Operating lease income	482,993	356,493	1,355,441	706,785
Service charges on deposit accounts	75,342	79,825	225,333	215,931
Mortgage brokerage	36,524	50,113	162,668	87,382
Gain (loss) on sale of investment securities	(23,467)	18,573	(31,850)	18,573
Gain on sale of assets	1,355	120,275	45,374	167,358
Bargain purchase gain	-	46	-	4,357,544
Other income	71,493	70,925	230,962	167,821
Total non-interest income	644,240	696,250	1,987,928	5,721,394
Non-Interest Expense:				
Salaries and employee benefits	1,916,883	1,781,357	5,759,290	4,625,574
Occupancy and equipment	314,447	293,374	940,493	693,690
Operating lease expense	423,043	318,580	1,182,085	630,625
Data processing	300,329	279,594	892,270	680,702
Marketing	82,985	62,703	224,748	197,738
Postage, supplies and printing	38,772	34,792	113,074	94,584
Other expense	731,355	470,981	2,201,043	1,636,939
Total non-interest expense	3,807,814	3,241,381	11,313,003	8,559,852
Income Before Income Taxes	854,537	1,351,820	2,328,503	6,784,316
Income Tax Expense	489,955	511,381	1,139,955	1,111,381
Net Income	364,582	840,439	1,188,548	5,672,935
Preferred Dividends Declared	12,500	12,500	37,500	37,500
Net Income Available to Common Shareholders	$ 352,082	$ 827,939	$ 1,151,048	$5,635,435
Basic Net Income per Common Share[(1)]:	$ 0.08	$ 0.19	$ 0.25	$ 1.43
Diluted Net Income per Common Share[(1)]:	$ 0.08	$ 0.19	$ 0.25	$ 1.43
Weighted averageCommon Shares Outstanding[(1)]:				
Basic	4,572,178	4,457,147	4,565,326	3,939,966
Diluted	4,679,706	4,457,147	4,669,626	3,939,966

[(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

	September 30, 2015	December 31, 2014	September 30, 2014
Gross loans[(1)]	$ 350,323,595	$330,819,139	$ 323,332,151
Allowance for loan losses	4,390,720	3,946,405	3,326,992
Net loans	$ 345,932,875	$326,872,734	$ 320,005,159
Allowance as a percent of gross loans	1.25%	1.19%	1.03%
Loans charged off, net of recoveries (year to date)	$ 240,898	$ 666,758	$ (678,046)
Net loans charged off as a percent of gross loans	0.07%	0.20%	-0.21%
Loans past due 30-89 days	$ 9,174,583	$ 674,649	$ 2,046,433
Non-accrual loans	$ 1,785,555	$ 2,374,279	$ 1,538,919
Real estate acquired in settlement of loans	1,223,735	1,684,101	1,544,594
Total non-performing assets	$ 3,009,290	$ 4,058,380	$ 3,083,513
Non-accrual loans as a percent of gross loans	0.51%	0.72%	0.48%
Non-performing assets as a percent of total assets	0.68%	0.97%	0.74%
Net losses on real estate or repossessed property acquired in settlement of loans	$ 61,070	$ 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 Nine Months Ended September 30,					
	2015			2014		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	$ 3,688,513	$ 6,240,277	0.53%	$ 7,519,643	$ 11,621,618	0.26%
Investment securities	71,163,577	62,207,357	2.13%	61,904,138	56,603,345	2.24%
Other investments	1,141,500	1,213,986	4.08%	830,500	658,469	4.07%
Loans and leases, gross	350,323,595	336,880,491	4.83%	323,332,151	265,127,364	4.98%
Total earning assets and yield	$ 426,317,185	$ 406,542,111	4.35%	$ 393,586,432	$ 334,010,796	4.35%
Liabilities:						
Non-interest-bearing demand deposits	$ 59,605,962	$ 54,681,776	0.00%	$ 53,606,139	$ 40,905,427	0.00%
Interest-bearing demand deposits	35,657,309	30,210,505	0.16%	24,597,709	23,818,366	0.14%
Savings deposits	42,350,312	37,821,319	0.26%	37,056,213	23,873,353	0.27%
Money market accounts	128,625,381	129,615,573	0.34%	133,440,923	118,158,761	0.33%
Time deposits	94,276,583	96,448,239	0.80%	96,790,333	85,091,072	0.73%
Total deposits and cost of deposits	360,515,547	348,777,412	0.31%	345,491,317	291,846,979	0.31%
Federal funds purchased	5,090,000	596,790	0.56%	1,065,000	485,596	0.66%
Securities sold under agreements to repurchase	4,823,491	5,440,630	0.30%	6,760,464	8,644,315	0.33%
FHLB advances	18,000,000	18,762,496	0.51%	7,500,000	6,272,894	1.11%
Other	200,000	276,923	3.00%	-	-	0.00%
Total interest-bearing liabilities and cost of funds	$ 388,629,038	$ 373,854,251	0.32%	$ 360,816,781	$ 307,249,784	0.33%
Total earning assets and net interest margin	$ 426,317,185	$ 406,542,111	4.06%	$ 393,586,432	$ 334,010,796	4.05%