August 5, 2016

Looking back at some of the shareholder letters from recent years, we were struck by the magnitude of the progress in the bank's development that was reported over this time. While we continue our normal focus on the quality of the delivery services to our customers and new customer acquisition, we are working on new initiatives to refine our business processes and plan for future growth. Please let us briefly comment on a few items that, like the weather, are currently "hot" at Carolina Alliance.

1) The largest undertaking currently in progress is dubbed "Project Horsepower" and led by John Kimberly. This is a bank-wide efficiency initiative with the goal of identifying opportunities for cost savings and revenue enhancements. We believe this project is a logical extension of the integration of the mergers that occurred in the past two years. We are closely examining systems and processes to, among other things, identify duplications and inefficiencies and consolidate vendor contracts. Our staff members have embraced this initiative and have forwarded many ideas to the project team.

2) We continue giving consideration to the feedback that we received in our Customer Survey. In fact, we will be implementing enhancements to our electronic delivery platforms over the coming months to address some of this valuable feedback.

3) David Barnett is leading the effort to continue development of our South Carolina Western Region, particularly the newer offices in Anderson, Easley, and Seneca. We are optimistic about this focused effort in this growing area of the state.

4) Our Strategic Planning Committee of the Board, chaired by Lou Bissette, is making progress on refreshing our strategic plan, which should be completed by the end of the third quarter.

Finally, we need to take a moment to formally thank our long-time friend and lender, Bobby Scruggs, who retired at the end of June. He has been loved by his customers and our team at Carolina Alliance and indeed will be missed. We wish him health and happiness in his well-deserved retirement.

The financial report through June 30, 2016 follows below and in the attachments to this letter. The following are highlights of our financial results:

- Net income available to common shareholders was $1.9 million, or $0.29 per diluted common share, for the six months ended June 30, 2016. This compares to $0.8 million, or $0.16 per diluted common share, for the same period in 2015. Although increased earning assets from the merger with Pinnacle contributed considerably to this $1.1 million increase, organic loan growth has proven challenging in 2016, with loan payoffs at record levels. These payoffs largely have come from debt reduction by businesses and from customers' sales of real estate. Few payoffs came from refinancing with competing financial institutions. Since the payoffs led to minimal growth in gross loans during the current period, the provision for loan and lease losses in 2016 as compared to 2015 decreased. In addition to these positive contributions to net income, non-interest income grew by approximately $0.8 million and continues to benefit substantially from Pinnacle's well-developed mortgage loan department.

- Total assets stood at $633.5 million at June 30, 2016 compared to $432.8 million at June 30, 2015. Of the $200.7 million increase, $147.8 million was attributable to the Pinnacle merger.

- At June 30, 2016, gross loans and leases totaled $475.3 million compared to $341.0 million at June 30, 2015, an increase of approximately $134.3 million. Loans added in the Pinnacle merger contributed $116.1 million to the increase.

- Total deposits increased to $527.1 million at June 30, 2016 from $355.9 million on June 30, 2015, an increase of $171.2 million, of which $121.6 million was attributable to the Pinnacle merger.

- Total shareholders' equity was $70.1 million at June 30, 2016 compared to $52.9 million at June 30, 2015. 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, 2016 decreased to 0.39% from a year prior at 0.72%. Non-performing assets were $2.5 million at June 30, 2016, as compared to $3.1 million at June 30, 2015.

We appreciate your continuing support of our bank. You may keep up with us through our quarterly newsletter, Facebook, Twitter, and our website. If you need to be added to the newsletter list or have any questions, please let us know by calling (864) 208-BANK (2265) or emailing us at info@carolinaalliancebank.com. If there are opportunities at any time for banking services that we can provide to you or anyone with whom you are connected, we would welcome a call or email to allow us to explore the situation.

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 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 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.

CAROLINA ALLIANCE BANK
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015	June 30, 2015
Assets			
Cash and due from banks	$ 16,703,017	$ 13,691,043	$ 10,472,844
Federal funds sold and interest bearing bank balances	13,042,389	4,853,946	4,019,277
Investment securities available for sale	96,398,454	90,475,629	63,445,041
Other investments	1,164,100	1,730,900	1,184,000
Loans held for sale	605,202	632,828	-
Loans and leases, net of allowance for losses (see "Asset Quality Data")	469,899,545	468,606,158	336,660,086
Premises and equipment, net	8,497,526	8,633,237	6,993,994
Leased assets	5,598,798	4,435,290	4,690,531
Accrued interest	1,377,610	1,559,163	1,073,318
Other assets	20,167,572	13,672,419	4,280,366
Total assets	$ 633,454,213	$ 608,290,613	$ 432,819,457
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	$ 527,088,089	$ 495,822,876	$ 355,856,223
Other borrowings	31,528,774	36,248,088	22,568,456
Accrued interest	111,531	99,399	57,871
Accrued expenses and other	4,636,214	4,242,036	1,434,166
Total liabilities	563,364,608	536,412,399	379,916,716
Shareholders' equity[(1)]:			
Preferred stock	-	5,000	5,000
Common stock	6,523,863	6,517,593	4,569,142
Additional paid in capital	58,948,957	63,851,719	44,559,623
Retained earnings	3,301,933	1,447,595	3,640,499
Accumulated other comprehensive income	1,314,852	56,307	128,477
Total shareholders' equity	70,089,605	71,878,214	52,902,741
Total liabilities and shareholders' equity	$ 633,454,213	$ 608,290,613	$ 432,819,457
Book value per common share	$ 10.74	$ 10.27	$ 9.99

(1) The 5% stock dividend declared on January 12, 2016 was recorded as if it occurred on December 31, 2015.

CAROLINA ALLIANCE BANK
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Interest Income:				
Loans and leases	$ 5,697,498	$ 3,992,238	$ 11,387,061	$ 8,006,769
Investment securities	510,217	331,370	1,021,060	660,323
Federal funds sold and bank deposits	18,580	13,590	29,343	16,637
Total interest income	6,226,295	4,337,198	12,437,464	8,683,729
Interest Expense:				
Deposits	594,975	267,554	1,136,565	525,257
Other borrowings	53,268	29,773	113,532	64,462
Total interest expense	648,243	297,327	1,250,097	589,719
Net Interest Income	5,578,052	4,039,871	11,187,367	8,094,010
Provision for Loan Losses	-	228,342	50,000	458,543
Net Interest Income after Provision for Loan Losses	5,578,052	3,811,529	11,137,367	7,635,467
Non-Interest Income:				
Operating lease income	564,755	449,168	1,055,749	872,448
Service charges on deposit accounts	186,958	75,055	369,485	149,991
Mortgage brokerage	286,309	65,287	478,064	126,144
Loss on sale of investment securities	-	(8,383)	-	(8,383)
Gain on sale of assets	14,544	9,019	13,648	44,019
Other income	133,300	77,676	272,739	159,469
Total non-interest income	1,185,866	667,822	2,189,685	1,343,688
Non-Interest Expense:				
Salaries and employee benefits	2,861,095	1,890,463	5,627,726	3,842,407
Occupancy and equipment	492,124	316,250	998,973	626,046
Operating lease expense	496,798	384,656	927,773	759,042
Data processing	520,226	296,758	1,025,000	591,941
Marketing	117,238	95,549	173,342	141,763
Postage, supplies and printing	53,571	41,449	109,672	74,302
Other expense	808,664	861,103	1,593,145	1,469,688
Total non-interest expense	5,349,716	3,886,228	10,455,631	7,505,189
Income Before Income Taxes	1,414,202	593,123	2,871,421	1,473,966
Income Tax Expense	453,607	289,712	985,000	650,000
Net Income	960,595	303,411	1,886,421	823,966
Preferred Dividends Declared	-	12,500	7,083	25,000
Net Income Available to Common Shareholders	$ 960,595	$ 290,911	$ 1,879,338	$ 798,966
Basic Net Income per Common Share[(1)]:	$ 0.15	$ 0.06	$ 0.29	$ 0.17
Diluted Net Income per Common Share[(1)]:	$ 0.15	$ 0.06	$ 0.29	$ 0.16
Weighted Average Common Shares Outstanding[(1)]:				
Basic	6,523,863	4,791,166	6,521,968	4,789,936
Diluted	6,581,160	4,911,892	6,577,560	4,897,694

(1) 2015 share and per share amounts have been adjusted to reflect the 5% stock dividend in 2016.

CAROLINA ALLIANCE BANK
REGULATORY CAPITAL
(Unaudited)

	June 30, 2016			
	Actual		Minimum to be Classified "Well Capitalized" [1]	
	Amount	Ratio	Amount	Ratio
	(Amounts in $000)			
Common equity tier 1 capital (to risk weighted assets)	$63,722	11.7%	$27,979	5.1%
Tier 1 capital (to risk weighted assets)	$63,722	11.7%	$36,168	6.6%
Total capital (to risk weighted assets)	$68,531	12.6%	$47,086	8.6%
Tier 1 capital (to average assets)	$63,722	10.2%	$24,868	4.0%

[1] Includes Capital Conservation Buffer

CAROLINA ALLIANCE BANK
ASSET QUALITY DATA
(Unaudited)

	June 30, 2016	December 31, 2015	June 30, 2015
Gross loans[(1)]	$475,288,733	$473,917,893	$340,993,240
Allowance for loan losses	4,783,986	4,678,907	4,333,154
Net loans	$470,504,747	$469,238,986	$336,660,086
Allowance as a percent of gross loans	1.01%	0.99%	1.27%
Loans charged off (recovered), net (year to date)	$ (55,078)	$ 177,708	$ 71,794
Net loans charged off as a percent of gross loans	-0.01%	0.04%	0.02%
Loans past due 30-89 days	$ 463,454	$ 442,064	$ 1,513,265
Non-accrual loans	$ 1,681,088	$ 3,128,461	$ 1,841,982
Real estate acquired in settlement of loans	787,268	1,465,690	1,263,709
Total non-performing assets	$ 2,468,356	$ 4,594,151	$ 3,105,691
Non-accrual loans as a percent of gross loans	0.35%	0.66%	0.54%
Non-performing assets as a percent of total assets	0.39%	0.76%	0.72%
Net losses on real estate or repossessed property acquired in settlement of loans	$ 90,664	$ 82,502	$ 37,378

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

CAROLINA ALLIANCE BANK
SELECTED YEAR-TO-DATE AVERAGES
(Unaudited)

	As of and for the Six Months Ended June 30,					
	2016			2015		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	$ 13,042,389	$ 6,826,720	0.86%	$ 4,019,277	$ 6,133,225	0.55%
Investment securities	96,398,454	95,464,051	2.06%	63,445,041	60,527,986	2.12%
Other investments	1,164,100	1,283,374	6.48%	1,184,000	1,246,862	3.74%
Loans and leases, gross	475,288,733	476,563,059	4.81%	340,993,240	335,802,161	4.81%
Total earning assets and yield	$585,893,676	$580,137,204	4.31%	$409,641,558	$403,710,234	4.34%
Liabilities:						
Non-interest-bearing demand deposits	$ 92,872,674	$ 92,418,725	0.00%	$ 55,838,446	$ 52,783,212	0.00%
Interest-bearing demand deposits	58,056,982	52,003,936	0.21%	35,052,272	28,767,910	0.16%
Savings deposits	85,728,253	77,393,192	0.34%	36,852,220	35,890,543	0.26%
Money market accounts	149,691,663	162,124,233	0.43%	128,967,518	131,112,847	0.35%
Time deposits	140,738,517	135,666,507	0.89%	99,145,767	96,458,706	0.79%
Total deposits and cost of deposits	527,088,089	519,606,593	0.44%	355,856,223	345,013,218	0.31%
Federal funds purchased	-	-	0.00%	-	820,600	0.54%
Securities sold under agreements to repurchase	17,028,774	10,907,012	0.38%	4,568,456	5,929,167	0.30%
FHLB advances	14,500,000	16,274,194	1.07%	18,000,000	19,199,787	0.51%
Other	200,000	200,000	3.31%	300,000	300,000	2.98%
Total interest-bearing liabilities and cost of funds	$558,816,863	$546,987,799	0.46%	$378,724,679	$371,262,772	0.32%
Total earning assets and net interest margin	$585,893,676	$580,137,204	3.88%	$409,641,558	$403,710,234	4.04%