



November 4, 2016

Dear Fellow Shareholders:

As fall finally begins, we want to reflect on a couple of the major initiatives of the summer months to which we have devoted significant time and effort.

Project Horsepower, which is led by John Kimberly, has been making very solid progress since its kickoff in early June. If you need a quick refresher on this project, it is a bank-wide efficiency initiative with the goal of identifying opportunities for cost savings and revenue enhancements. There is great enthusiasm for the initiative throughout the bank. The participants have identified opportunities for improvement that should yield an overall impact of over \$1 million during the next twelve months. It has been exciting for us to witness the efforts of the numerous teams that have been working to improve our bottom line.

The other major initiative of the summer is our effort to broaden our shareholder base through presentations to investment professionals. Our goal is to inform investment advisors and institutional investors who may not be fully aware of our story about the growth and successes of Carolina Alliance over the past few years. We have done in-market and out-of-market presentations in the hope of attracting additional investors and cultivating greater stock activity.

The financial report through September 30, 2016 follows below and in the attachments to this letter.

- Net income available to common shareholders was \$3.1 million, or \$0.47 per diluted common share, for the nine months ended September 30, 2016. This compares to \$1.2 million, or \$0.23 per diluted common share, for the same period in 2015. While increased earning assets from the merger with Pinnacle contributed considerably to this \$1.9 million increase, our current year loan growth has been sluggish through September. Our gross loan production is at an all-time high; however, unscheduled payoffs continue to be an impediment to net loan growth. Most of these payoffs have come from real estate sales in a very active market and from businesses who are experiencing excess cash that they are using to pay down loans. 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, non-interest income grew by approximately \$1.7 million, with Pinnacle's well-developed mortgage loan department contributing significantly to this increase.
- Total assets stood at \$626.4 million at September 30, 2016 compared to \$444.3 million at September 30, 2015. Of the \$182.1 million increase, \$147.8 million was attributable to assets added in the Pinnacle merger.
- At September 30, 2016, gross loans and leases totaled \$475.6 million compared to \$350.3 million at September 30, 2015, an increase of approximately \$125.3 million. Loans added in the Pinnacle merger contributed \$116.1 million to the increase.
- Total deposits increased to \$517.6 million at September 30, 2016 from \$360.6 million on September 30, 2015, an increase of \$157.0 million, of which \$121.6 million was attributable to deposits added in the Pinnacle merger.

- Total shareholders' equity was \$71.1 million at September 30, 2016 compared to \$53.6 million at September 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 September 30, 2016 decreased to 0.40% from a year prior at 0.68%. Non-performing assets were \$2.5 million at September 30, 2016, as compared to \$3.0 million at September 30, 2015.

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 our 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 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)

	September 30, 2016	December 31, 2015	September 30, 2015
Assets			
Cash and due from banks	\$ 16,625,408	\$ 13,691,043	\$ 5,823,579
Federal funds sold and interest bearing bank balances	5,826,671	4,853,946	3,688,513
Investment securities available for sale	97,494,588	90,475,629	71,163,577
Other investments	1,334,100	1,730,900	1,141,500
Loans held for sale	834,000	632,828	-
Loans and leases, net of allowance for losses (see "Asset Quality Data")	469,964,883	468,606,158	345,932,875
Premises and equipment, net	8,382,017	8,633,237	6,908,471
Leased assets	5,515,824	4,435,290	4,458,026
Accrued interest	1,401,526	1,559,163	1,141,635
Other assets	18,980,639	13,672,419	4,014,680
Total assets	<u>\$ 626,359,656</u>	<u>\$ 608,290,613</u>	<u>\$ 444,272,856</u>
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	\$ 517,607,819	\$ 495,822,876	\$ 360,515,549
Other borrowings	33,149,563	36,248,088	27,913,491
Accrued interest	117,712	99,399	62,335
Accrued expenses and other	4,407,977	4,242,036	2,136,668
Total liabilities	<u>555,283,071</u>	<u>536,412,399</u>	<u>390,628,043</u>
Shareholders' equity⁽¹⁾:			
Preferred stock	-	5,000	5,000
Common stock	6,531,723	6,517,593	4,573,697
Additional paid in capital	59,025,726	63,851,719	44,703,203
Retained earnings	4,537,326	1,447,595	3,992,580
Accumulated other comprehensive income	981,810	56,307	370,333
Total shareholders' equity	<u>71,076,585</u>	<u>71,878,214</u>	<u>53,644,813</u>
Total liabilities and shareholders' equity	<u>\$ 626,359,656</u>	<u>\$ 608,290,613</u>	<u>\$ 444,272,856</u>
Book value per common share	<u>\$ 10.88</u>	<u>\$ 10.27</u>	<u>\$ 10.14</u>
Tangible book value per common share	<u>\$ 10.03</u>	<u>\$ 9.78</u>	<u>\$ 10.14</u>

⁽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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest Income:				
Loans and leases	\$ 5,780,212	\$ 4,171,312	\$17,167,273	\$12,178,081
Investment securities	526,744	368,824	1,547,804	1,029,147
Federal funds sold and bank deposits	15,727	8,132	45,070	24,769
Total interest income	<u>6,322,683</u>	<u>4,548,268</u>	<u>18,760,147</u>	<u>13,231,997</u>
Interest Expense:				
Deposits	597,281	275,009	1,733,846	800,266
Other borrowings	52,940	28,478	166,472	92,940
Total interest expense	<u>650,221</u>	<u>303,487</u>	<u>1,900,318</u>	<u>893,206</u>
Net Interest Income	5,672,462	4,244,781	16,859,829	12,338,791
Provision for Loan Losses	-	226,670	50,000	685,213
Net Interest Income after Provision for Loan Losses	<u>5,672,462</u>	<u>4,018,111</u>	<u>16,809,829</u>	<u>11,653,578</u>
Non-Interest Income:				
Operating lease income	578,211	482,993	1,633,960	1,355,441
Service charges on deposit accounts	188,692	75,342	558,177	225,333
Mortgage brokerage	353,322	36,524	831,386	162,668
Gain (loss) on sale of investment securities	79,346	(23,467)	79,346	(31,850)
Gain on sale of assets	(2,581)	1,355	11,067	45,374
Other income	256,105	71,493	528,844	230,962
Total non-interest income	<u>1,453,095</u>	<u>644,240</u>	<u>3,642,780</u>	<u>1,987,928</u>
Non-Interest Expense:				
Salaries and employee benefits	2,889,869	1,916,883	8,517,595	5,759,290
Occupancy and equipment	498,132	314,447	1,497,105	940,493
Operating lease expense	511,241	423,043	1,439,014	1,182,085
Data processing	513,907	300,329	1,538,907	892,270
Marketing	110,311	82,985	283,653	224,748
Postage, supplies and printing	51,079	38,772	160,751	113,074
Other expense	679,459	731,355	2,272,604	2,201,043
Total non-interest expense	<u>5,253,998</u>	<u>3,807,814</u>	<u>15,709,629</u>	<u>11,313,003</u>
Income Before Income Taxes	1,871,559	854,537	4,742,980	2,328,503
Income Tax Expense	<u>636,166</u>	<u>489,955</u>	<u>1,621,166</u>	<u>1,139,955</u>
Net Income	1,235,393	364,582	3,121,814	1,188,548
Preferred Dividends Declared	-	12,500	7,083	37,500
Net Income Available to Common Shareholders	<u>\$ 1,235,393</u>	<u>\$ 352,082</u>	<u>\$ 3,114,731</u>	<u>\$ 1,151,048</u>
Basic Net Income per Common Share⁽¹⁾:	<u>\$ 0.19</u>	<u>\$ 0.07</u>	<u>\$ 0.48</u>	<u>\$ 0.24</u>
Diluted Net Income per Common Share⁽¹⁾:	<u>\$ 0.19</u>	<u>\$ 0.07</u>	<u>\$ 0.47</u>	<u>\$ 0.23</u>
Weighted Average Common Shares Outstanding⁽¹⁾:				
Basic	<u>6,526,939</u>	<u>4,800,787</u>	<u>6,523,637</u>	<u>4,793,592</u>
Diluted	<u>6,586,376</u>	<u>4,913,691</u>	<u>6,580,511</u>	<u>4,903,107</u>

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

CAROLINA ALLIANCE BANK
REGULATORY CAPITAL
(Unaudited)

	September 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)	\$65,439	11.9%	\$28,165	5.1%
Tier 1 capital (to risk weighted assets)	\$65,439	11.9%	\$36,408	6.6%
Total capital (to risk weighted assets)	\$70,254	12.8%	\$47,399	8.6%
Tier 1 capital (to average assets)	\$65,439	10.4%	\$25,082	4.0%

⁽¹⁾ Includes Capital Conservation Buffer

CAROLINA ALLIANCE BANK
ASSET QUALITY DATA
(Unaudited)

	September 30, 2016	December 31, 2015	September 30, 2015
Gross loans ⁽¹⁾	\$ 475,589,297	\$473,917,893	\$ 350,323,595
Allowance for loan losses	4,790,414	4,678,907	4,390,720
Net loans	<u>\$ 470,798,883</u>	<u>\$469,238,986</u>	<u>\$ 345,932,875</u>
Allowance as a percent of gross loans	<u>1.01%</u>	<u>0.99%</u>	<u>1.25%</u>
Loans charged off (recovered), net (year to date)	<u>\$ (61,507)</u>	<u>\$ 177,708</u>	<u>\$ 168,848</u>
Net loans charged off as a percent of gross loans	<u>-0.01%</u>	<u>0.04%</u>	<u>0.05%</u>
Loans past due 30-89 days	<u>\$ 599,664</u>	<u>\$ 442,064</u>	<u>\$ 565,208</u>
Non-accrual loans	\$ 2,179,609	\$ 3,128,461	\$ 1,785,555
Real estate acquired in settlement of loans	308,518	1,465,690	1,223,735
Total non-performing assets	<u>\$ 2,488,127</u>	<u>\$ 4,594,151</u>	<u>\$ 3,009,290</u>
Non-accrual loans as a percent of gross loans	<u>0.46%</u>	<u>0.66%</u>	<u>0.51%</u>
Non-performing assets as a percent of total assets	<u>0.40%</u>	<u>0.76%</u>	<u>0.68%</u>
Net losses on real estate or repossessed property acquired in settlement of loans	<u>\$ 124,274</u>	<u>\$ 82,502</u>	<u>\$ 61,070</u>

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

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

	As of and for the Nine Months Ended September 30,					
	2016			2015		
	Ending Balances	Average Balances	Rate	Ending Balances	Average Balances	Rate
Assets:						
Interest-earning deposits	\$ 5,826,671	\$ 10,326,317	0.58%	\$ 3,688,513	\$ 6,240,277	0.53%
Investment securities	97,494,588	94,798,923	2.10%	71,163,577	62,207,357	2.13%
Other investments	1,334,100	1,434,706	5.23%	1,141,500	1,213,986	4.08%
Loans and leases, gross	475,589,297	475,666,229	4.82%	350,323,595	336,880,491	4.83%
Total earning assets and yield	<u>\$580,244,656</u>	<u>\$582,226,175</u>	<u>4.30%</u>	<u>\$426,317,185</u>	<u>\$406,542,111</u>	<u>4.35%</u>
Liabilities:						
Non-interest-bearing demand deposits	\$ 96,340,817	\$ 93,125,259	0.00%	\$ 59,605,962	\$ 54,681,776	0.00%
Interest-bearing demand deposits	61,230,221	54,643,147	0.21%	35,657,309	30,210,505	0.16%
Savings deposits	75,464,598	73,392,291	0.37%	42,350,312	37,821,319	0.26%
Money market accounts	141,376,244	158,479,541	0.42%	128,625,381	129,615,573	0.34%
Time deposits	143,195,939	136,552,907	0.93%	94,276,583	96,448,239	0.80%
Total deposits and cost of deposits	517,607,819	516,193,145	0.45%	360,515,547	348,777,412	0.31%
Federal funds purchased	-	562,742	0.78%	5,090,000	596,790	0.56%
Securities sold under agreements to repurchase	14,649,563	12,192,997	0.44%	4,823,491	5,440,630	0.30%
FHLB advances	18,500,000	19,743,796	0.80%	18,000,000	18,762,496	0.51%
Other	100,000	177,737	3.29%	200,000	276,923	3.00%
Total interest-bearing liabilities and cost of funds	<u>\$550,857,382</u>	<u>\$548,870,417</u>	<u>0.46%</u>	<u>\$388,629,038</u>	<u>\$373,854,251</u>	<u>0.32%</u>
Total earning assets and net interest margin	<u>\$580,244,656</u>	<u>\$582,226,175</u>	<u>3.87%</u>	<u>\$426,317,185</u>	<u>\$406,542,111</u>	<u>4.06%</u>