

July 20, 2016



Dear FirstAtlantic Shareholders,

I am pleased to provide you with a report of FirstAtlantic's second quarter results. Your company continues to perform well in a number of key measures, which are discussed in this letter. A summary of the most recent financial statements is attached for your review. The complete financial statements are available through www.otcm Markets.com under our symbol FFHD.

EARNINGS

Net income for the second quarter was \$1.05 million or \$.17 per share, an increase of 25% from the same quarter in 2015. Net income was positively impacted by improvement in net interest margin as a result of growth in the loan portfolio and improvements in the mix of deposits towards non-interest bearing checking accounts. Growth in loans and checking accounts are important to us as they confirm that our value proposition is resonating in the marketplace with our customers and prospects. These two primary products, loans and checking accounts, are our two most profitable products and create recurring revenue, which we believe will be key contributors to the long term growth in value of FirstAtlantic. Also favorably impacting the quarterly results in 2016 was the \$373,000 pre-tax gain achieved on the sale of securities in our investment portfolio.

For the six months ending June 30, 2016, net income declined slightly to \$1.78 million compared to \$1.85 million for the same period in 2015. The decline was the result of the favorable pre-tax gain of \$690,000 realized on the sale of a purchase credit impaired loan in the same period in 2015.

While net income was down \$66,000 from the six month period in 2015, core earnings, which excludes non-recurring items and loan loss provision expense, increased by 15% or \$244,000. During the second quarter, core earnings increased by 16% compared to the previous year's second quarter. A core earnings table is attached for your review and comparison.

LOANS and ASSET QUALITY

The loan portfolio continues to perform very well, both in growth and quality. Net loan balances grew by 10%, or \$28 million, for the 12 month period ending June 30, 2016. For the most recent quarter, net loans increased almost \$11 million, an annualized growth rate of 14%. The portfolio of FirstAtlantic originated loans (non-purchased loans) grew by \$40 million over the past year, a growth rate of 24%.

We continue to realize improvements in the quality of the loan portfolio. Non-performing loans and foreclosed property have declined by 48% in 2016 to \$1.4 million or .32% of assets. The company's Loan Loss Reserve increased due to provisions for loan growth to \$2.2 million from \$2.0 million at year-end. Net loan charge offs for the first six months were \$85,000, or only .06% of loans on an annualized basis. As of June 30th, the Allowance for Loan Losses was 238% of non-performing loans, up from 102% at year end and 53% at June 30, 2015.

DEPOSITS

The company continues to benefit from growth in non-interest bearing deposit accounts, which consist largely of business checking accounts, in part due to the success our business clients are experiencing in this improved economy. Through the first six months of this year, non-interest bearing deposits have grown by \$16 million, an annualized growth rate of over 35%.

Declines in interest bearing checking accounts and money market accounts have resulted in a nominal growth in total deposits of \$3 million year-to-date. The improved mix of deposits contributed to our being able to maintain our cost of funds at .39% for the third consecutive quarter, even as the Fed increased short term rates in December 2015.

EQUITY

Total shareholders' equity has increased by \$2.7 million during this year to \$60.4 million, an annualized growth rate of 9%. Book value per share as of June 30th was \$10.07. Tangible common equity has increased by \$2.8 million this year to \$57.7 million, an annualized increase of 10.3%. Tangible book value per share ended the quarter at \$9.63.

Equity growth this year is attributable to the net income of \$1.8 million and the after-tax increase in the value of our investment portfolio held for sale (Accumulated Other Comprehensive Income – AOCI) of \$1 million. The significant increase in AOCI has resulted primarily from the decline in longer term interest rates, which increased the value of our investment portfolio. The average re-pricing term of our investment portfolio is less than 5 years.

FirstAtlantic's ratio of tangible equity to assets remains very strong at 13.4%, providing continued support for both our organic growth and acquisition strategies.

SHAREHOLDER VALUE INITIATIVES

The board of directors recently declared a quarterly cash dividend of \$.03 per share which was paid earlier this month. The dividend is equivalent to approximately 20% of net income. Because we have solid core earnings, we believe that we can pay this amount without inhibiting our ability to consummate an acquisition, while continuing to support organic growth.

FirstAtlantic continues to receive positive exposure through the OTC Markets listing of our Company. In May, companies listed on the OTCQX began receiving quantitative analysis by Morningstar. FirstAtlantic currently receives a 3-Star rating by Morningstar. In June, FirstAtlantic was included in the OTC Dividend Index. These two initiatives by OTC Markets bring added visibility of FirstAtlantic to current and potential investors. Shares of FirstAtlantic continue to trade on a frequent basis, and for the one year period ending July 20, 2016, FirstAtlantic shares have increased in market value by approximately 24%, during a time when bank stock indexes have generally declined.

I want to thank you for your continued support of FirstAtlantic. We will continue to be diligent in working to enhance the value of your investment.

Sincerely,

A handwritten signature in blue ink, reading "Mitchell W. Hunt, Jr.", with a stylized, cursive script.

Mitchell W. Hunt, Jr.
President and Chief Executive Officer

FirstAtlantic Financial Holdings, Inc.
Consolidated Balance Sheet (in thousands, except share data)
(unaudited)

	June 30, 2016	December 31, 2015	June 30, 2015
Assets:			
Cash and due from banks	\$ 25,572	12,215	39,426
Federal funds sold	777	312	136
Total cash and cash equivalents:	26,349	12,527	39,562
Interest bearing deposits in banks	4,234	7,198	1,720
Investment securities available for sale, at fair value	59,969	73,162	64,266
Investment securities held to maturity; (fair value of \$7,415, \$7,486, and \$2,643)	7,280	7,492	2,655
Loans, net of unearned income	314,152	300,514	285,496
Less allowance for loan losses	2,204	2,012	1,783
Loans, net	311,948	298,502	283,713
Premises and equipment, net	13,958	14,177	14,277
Investment in Federal Home Loan Bank stock	973	770	345
Accrued interest receivable	1,155	1,130	1,040
Goodwill and intangible assets, net	2,657	2,820	2,985
Other real estate owned	456	658	777
Deferred tax assets	1,500	2,134	3,075
Other assets	1,123	1,233	932
Total assets	\$ 431,602	421,803	415,347
Liabilities and shareholders' equity			
Deposits:			
Non interest-bearing demand	\$ 105,396	89,432	98,866
Interest-bearing demand	52,690	54,448	57,408
Savings and money market	138,262	152,859	139,518
Time deposits	60,237	56,766	61,758
Total deposits	356,585	353,505	357,550
Advances from Federal Home Loan Bank	14,000	10,000	-
Accrued interest payable	105	95	136
Other liabilities	529	478	1,621
Total liabilities	371,219	364,078	359,307
Shareholders' equity			
Preferred stock, \$.01 par value; 5,000,000 shares authorized; no shares issued and outstanding	-	-	-
Common stock, \$.01 par value; 20,000,000 shares authorized; 5,994,955 shares issued and outstanding	60	60	60
Additional paid in capital	52,699	52,678	52,667
Retained earnings	7,385	5,782	4,023
Accumulated other comprehensive income, net of tax	239	(795)	(710)
Total shareholders' equity	60,383	57,725	56,040
Total liabilities and shareholders' equity	\$ 431,602	421,803	415,347

FirstAtlantic Financial Holdings, Inc.
Consolidated Statement of Income (in thousands except share data)
(unaudited)

	Six months ended June 30,		Three months ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	\$ 8,159	\$ 8,001	\$ 4,106	\$ 4,082
Investment securities	802	583	394	298
Other interest and investment income	63	39	44	26
Total interest income	9,024	8,623	4,544	4,406
Interest expense:				
Deposits	685	786	345	392
Federal Home Loan Bank advances	30	4	14	-
Total interest expense	715	790	359	392
Net interest income	8,309	7,833	4,185	4,014
Provision for loan losses	277	266	122	225
Net interest income after provision for loan losses	8,032	7,567	4,063	3,789
Other operating income:				
Service fees on deposit accounts	348	304	155	157
Gain on sale of loans	-	690	-	225
Gain on sale of securities available for sale	373	29	373	-
Gain on sale of other real estate	(7)	12	(7)	11
Other operating income	322	330	167	170
Total non-interest income	1,036	1,365	688	563
Other operating expense				
Salaries and employee benefits	3,710	3,523	1,840	1,725
Occupancy and equipment	763	710	387	364
Ammortization of intangible assets	163	165	81	82
Data processing and communications	497	477	248	255
Expenses and valuation adjustments on other real estate	16	93	5	76
FDIC insurance	116	127	59	63
Legal, accounting and audit fees	200	196	73	87
Other operating	727	660	372	351
Total non-interest expense	6,192	5,951	3,065	3,003
Net income before taxes	2,876	2,981	1,686	1,349
Income tax expense	(1,093)	(1,132)	(640)	(515)
Net income	<u>\$ 1,783</u>	<u>\$ 1,849</u>	<u>\$ 1,046</u>	<u>\$ 834</u>
Basic earnings per common share	\$ 0.30	\$ 0.31	\$ 0.17	\$ 0.14
Basic average common shares outstanding	5,994,955	5,994,955	5,994,955	5,994,955
Diluted earnings per common share	\$ 0.30	\$ 0.31	\$ 0.17	\$ 0.14
Diluted weighted average common shares outstanding	5,996,843	5,994,955	6,001,842	5,994,955

FirstAtlantic Financial Holdings, Inc. and Subsidiary (Consolidated)

Financial Highlights (unaudited)

(dollars in thousands except per share data)

	Six months ended June 30,		Three months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Per common share				
Basic earnings per common share	\$ 0.30	0.31	0.17	0.14
Diluted earnings per common share	\$ 0.30	0.31	0.17	0.14
Basic average common shares outstanding	5,994,955	5,994,955	5,994,955	5,994,955
Diluted weighted average common shares outstanding	5,996,843	5,994,955	6,001,842	5,994,955
Key performance ratios				
Return on average assets	0.84%	0.95%	0.97%	0.84%
Return on average shareholders' equity	6.04%	6.67%	7.01%	5.96%
Efficiency ratio	68.85%	70.28%	67.89%	69.16%
Earning asset yield	4.47%	4.69%	4.49%	4.70%
Cost of interest bearing liabilities	0.53%	0.64%	0.54%	0.63%
Net interest spread	3.94%	4.05%	3.95%	4.07%
Cost of funds	0.39%	0.47%	0.39%	0.46%
Net interest margin	4.11%	4.26%	4.28%	4.13%
Net charge-offs (recoveries)	\$ 85	272	106	226
Net charge-offs (recoveries) / average loans	0.03%	0.10%	0.03%	0.08%

Consolidated Balance Sheet Data	June 30,	December 31,	June 30,
	2016	2015	2015

Per common share

Book Value	\$ 10.07	9.63	9.35
Tangible book value	\$ 9.63	9.16	8.85

Capital

Tier 1 Leverage ratio	13.64%	13.61%	13.59%
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Asset quality data

Nonaccrual loans	\$ 925	1,982	3,210
90 day past due and accruing loans	\$ -	-	145
Non-performing loans	\$ 925	1,982	3,355
Other real estate owned	\$ 456	658	777
Non-performing assets (excluding TDR's)	\$ 1,381	2,640	4,132
Non-performing assets / total assets	0.32%	0.63%	0.99%
Non-performing assets / total loans and OREO	0.44%	0.88%	1.44%
Allowance for loan losses / nonperforming loans	238.27%	101.51%	53.14%

Key Balance Sheet Ratios

Loan to deposit ratio	88.10%	85.01%	79.85%
Annualized growth in total loans *	9.01%	5.00%	-0.44%
Annualized growth in legacy (non acquired) loans *	22.54%	14.65%	5.95%
Non-interest bearing deposits / total deposits	29.56%	25.30%	27.65%
Non-maturity (core) deposits / total deposits	83.11%	83.94%	82.73%
Annualized growth in non-interest bearing deposits *	35.70%	9.85%	31.95%
Annualized growth in non-maturity (core) deposits *	-0.26%	16.21%	9.25%
Annualized growth in total deposits *	1.74%	8.43%	1.55%

* June 30, 2015 and 2016 growth rates are year to date annualized

FirstAtlantic Financial Holdings, Inc.
Core Earnings Analysis (Tax Effected)
(unaudited)

	Six months ended June 30,		Three months ended June 30,	
<i>(Dollars in thousands except per share data)</i>	2016	2015	2016	2015
Interest income as stated	\$ 9,024	\$ 8,623	\$ 4,544	\$ 4,406
Less: Accelerated accretion of acquired loans	(60)	(155)	(60)	(155)
Core interest income	8,964	8,468	4,484	4,251
Interest expense as stated	715	790	359	392
Net interest income as stated	8,309	7,833	4,185	4,014
Core net interest income	8,249	7,678	4,125	3,859
Provision for loan losses	277	266	122	225
NII after provision for loan losses as stated	8,032	7,567	4,063	3,789
Non-interest income as stated	1,036	1,364	688	563
Gain on sales of securities available for sale	(373)	(29)	(373)	-
Gain on sales of portfolio loans	-	(690)	-	(225)
Net (gain) or loss on sale of OREO & valuations	7	(12)	7	(11)
Core Non-Interest Income	670	633	322	327
Non interest expense as stated	6,192	5,950	3,065	3,003
Less: Amortization expense on intangible assets	(164)	(164)	(81)	(82)
Expense of disposition of premises and equipment	-	-	-	-
Impairment of Other Real Estate	-	(50)	-	(50)
Other non-recurring expenses	(94)	(17)	(63)	-
Core Noninterest Expense	5,934	5,719	2,921	2,871
Net Income before taxes as stated	2,876	2,981	1,686	1,349
Net non-core interest items from above	(60)	(155)	(60)	(155)
Provision for loan losses from above	277	266	122	225
Non-core non-interest income from above	(366)	(731)	(366)	(236)
Non-core non-interest expense from above	258	231	144	132
Core Pre-tax , Pre-provision Net Income	2,985	2,592	1,526	1,315
Income tax expense as stated	1,093	1,132	640	515
Core Income tax expense	1,132	983	579	499
Net Income as stated	1,783	1,849	1,046	834
Core Pre-provision Net Income	\$ 1,853	\$ 1,609	\$ 947	\$ 816
Key Core pre-provision Income Performance Ratios (Tax Effecte				
Basic earnings per share	\$ 0.31	\$ 0.27	\$ 0.16	\$ 0.14
Diluted earnings per share	\$ 0.31	\$ 0.27	\$ 0.16	\$ 0.14
Return on average assets	0.87%	0.82%	0.89%	0.82%
Return on average equity	6.28%	6.50%	6.37%	5.83%
Yield on earning assets	4.44%	4.73%	4.42%	4.53%
Cost of interest bearing liabilities	0.53%	0.61%	0.54%	0.63%
Cost of funds	0.39%	0.48%	0.39%	0.46%
Net interest margin	4.08%	3.94%	3.86%	3.88%
Non interest income / average assets	0.31%	0.35%	0.32%	0.35%
Non interest expense / average assets	2.78%	2.93%	2.73%	2.88%
Efficiency ratio	66.53%	68.81%	65.68%	68.59%