

January 20, 2017

Dear FirstAtlantic Shareholders,

I am pleased to provide you with a report of FirstAtlantic's results for 2016. It was a successful year in which we recorded solid earnings, achieved stellar asset quality, and continued significantly growing non-interest checking account balances. 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.

EARNINGS

Net income for 2016 was \$3.7 million or \$.62 per share, an increase of \$100,000, or 3% over 2015 results. Growth in net income was made possible by an \$815,000 increase in interest income for the year. Key contributors to the increase in interest income were growth in loan interest of \$478,000 and investment interest of \$298,000 that resulted from larger average balances in both loans and investments. Loan balances averaged \$19 million higher in 2016 compared to 2015, and investment balances averaged \$14 million higher for the year. Other factors impacting net income were a reduction in loan loss provision expense of \$144,000 and a non-recurring gain on sale of securities of \$373,000. In 2015, we recorded a \$779,000 non-recurring gain on the sale of purchased loans, which has the effect of negatively impacting the year over year net income comparisons.

Core earnings, which exclude non-recurring items and loan loss provision expense, grew by \$365,000 in 2016, an increase of 11%, to \$3.7 million. Growth in core income was fueled by the increase in interest income that resulted from higher average balances in loans and investments. A Core Earnings Table highlighting the specific non-core items is attached to provide a view of year over year comparable earnings.

LOANS

The loan portfolio, while growing by \$19 million in average balances year over year, was relatively unchanged in the fourth quarter at \$310 million. Challenges to loan growth have been two fold – a recent increase in loan payoffs and a reduction in new loan production from being understaffed in the 3rd and 4th quarters. We now have our lending team fully staffed and anticipate increased production in 2017. While the net loan portfolio increased by \$10.2 million from December 2015 to December 2016, the portfolio of FirstAtlantic originated loans (non-purchased loans) grew by \$26 million, an increase of 14%, to \$214 million.

DEPOSITS

The company benefitted from continued growth in non-interest bearing deposit account balances, which consist largely of business checking accounts. Growth in non-interest bearing deposits totaled \$12.9 million in 2016, an increase of 14.4%. Declines in interest bearing checking accounts and money market accounts resulted in a net decline in total deposits of \$1.1 million. Non-interest bearing deposits

now comprise 29% of total deposits, an increase from 25.3% over the course of the year, providing us with a more stable and lower cost of funds.

NET INTEREST MARGIN

The net interest margin for 2016 declined to 4.13% from 4.17% in 2015. However, when excluding purchased loan accretion, our net interest margin actually increased for the year to 3.79% from 3.69% in the previous year. Growth in net interest margin was positively impacted by the improved deposit mix, which contributed towards our cost of funds declining from .44% in 2015 to .39% in 2016.

The Federal Reserve Bank has signaled an expectation of more than one rate increase in 2017 after increasing the targeted Fed Funds rate by one-quarter percent in each of the last two years. The degree to which we are able to adjust deposit rates at a lesser pace than the Fed rate increases, and our ability to continue growing non-interest bearing deposits are factors that could benefit net interest margin. Challenging our ability to increase net interest margin will be that loans maturing in 2017 are generally at higher interest rates than the rates on new loan originations.

ASSET QUALITY

The asset quality measures for FirstAtlantic have continued to improve. At December 31, 2016, the ratio of non-performing assets to total assets had been reduced to a most favorable rate of .20%, down from .63% at the end of 2015. Total non-performing assets declined by \$1.75 million in 2016 to \$887,000 at year end. Net loan charge-offs for the year were \$90,000, a very low rate of only .03% of average loans, and a significant improvement from last year's already low net loan charge off amount of \$278,000.

The company's Loan Loss Reserve increased \$267,000 during the year to \$2.28 million, equal to .73% of gross loans, an increase from .67% at December 31, 2015. Excluding acquired loans accounted for at fair market value, the reserve as a percentage of loans remained stable at .85% from year-end 2015 to 2016.

EQUITY

Total Shareholders' Equity grew by \$2.5 million, a 4.3% increase, in 2016 after accruing for \$721,000 in dividends during the year. Tangible Shareholders' Equity increased by 5.1% in 2016 to \$57.7 million. On a per share basis, book value per share was \$10.04 and tangible book value per share was \$9.62 as of December 31, 2016.

Because of the late year spike in long term interest rates, equity was negatively impacted by a \$600,000 decline in the after tax value of our Available for Sale investment portfolio compared to December 2015. The decline in the after tax value of the portfolio was more pronounced in the fourth quarter at \$1.4 million. The average re-pricing term of our Available for Sale investment portfolio continues to be approximately 5 years and the portfolio has limited extension risks due to the structure of the securities within the portfolio.

FirstAtlantic's ratio of tangible equity to assets remains very strong at 13%, providing continued support for both our organic growth and acquisition strategies.

KEY HIGHLIGHTS

- The board of directors increased the frequency of the dividend to quarterly in 2016; it had previously been an annual dividend. The quarterly dividend amount was set at \$.03 per share beginning with the April, 2016 payment. On an annualized basis, this represents a 20% increase from the previous \$.10 annual dividend.
- In addition to the value our shareholders have received from dividend payments, the stock price of FirstAtlantic continued to grow in 2016, ending the year at \$11.20. This represents a 31.76% increase in price since our stock began trading on the OTCMarkets in March 2015, and an 11.22% increase in 2016.
- We will be completing an upgrade and change in our core data system in February. This enhancement will allow us to better serve our targeted customer markets of businesses and professionals, improve our fraud management capabilities, and more effectively manage our data processing expenses while limiting our exposure to future costs related to merger and acquisition activity.

Over the next few weeks, you will receive our Annual Report and Proxy Statement in which the date of our Annual Shareholders Meeting will be announced. Also, during the month of February, we expect to post the company's annual audited financial statement on the OTCMarkets page for FirstAtlantic, www.otcmarkets.com/stock/FFHD/filings. Please be on the lookout for these items.

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,



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

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

	December 31, 2016	December 31, 2015
Assets:		
Cash and due from banks	\$ 14,216	12,215
Federal funds sold	419	312
Total cash and cash equivalents:	14,635	12,527
Interest bearing deposits in banks	5,479	7,198
Investment securities available for sale, at fair value	78,861	73,162
Investment securities held to maturity; (fair value of \$7,130 and \$7,486)	7,187	7,492
Loans, net of unearned income	310,694	300,514
Less allowance for loan losses	2,279	2,012
Loans, net	308,415	298,502
Premises and equipment, net	13,873	14,177
Investment in Federal Home Loan Bank stock	1,398	770
Accrued interest receivable	1,251	1,130
Goodwill and intangible assets, net	2,501	2,820
Other real estate owned	642	658
Deferred tax assets	2,485	2,134
Other assets	1,024	1,233
Total assets	\$ 437,751	421,803
Liabilities and shareholders' equity		
Deposits:		
Non interest-bearing demand	\$ 102,333	89,432
Interest-bearing demand	50,221	54,448
Savings and money market	136,179	152,859
Time deposits	63,625	56,766
Total deposits	352,358	353,505
Advances from Federal Home Loan Bank	24,000	10,000
Accrued interest payable	104	95
Income taxes payable	-	-
Other liabilities	1,074	478
Total liabilities	377,536	364,078
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; 5,997,192 shares issued and outstanding at December 31, 2016 5,994,955 shares issued and outstanding at December 31, 2015	60	60
Additional paid in capital	52,781	52,678
Retained earnings	8,769	5,782
Accumulated other comprehensive income, net of tax	(1,395)	(795)
Total shareholders' equity	60,215	57,725
Total liabilities and shareholders' equity	\$ 437,751	421,803

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

	Years ended December 31,		Three months ended December 31,	
	2016	2015	2016	2015
Interest income:				
Loans, including fees	\$ 16,701	\$ 16,223	\$ 4,386	\$ 4,054
Investment securities	1,550	1,252	420	366
Other interest and investment income	162	123	49	46
Total interest income	<u>18,413</u>	<u>17,598</u>	<u>4,855</u>	<u>4,466</u>
Interest expense:				
Deposits	1,390	1,537	357	356
Federal Home Loan Bank advances	74	7	25	2
Total interest expense	<u>1,464</u>	<u>1,544</u>	<u>382</u>	<u>358</u>
Net interest income	16,949	16,054	4,473	4,108
Provision for loan losses	357	501	80	-
Net interest income after provision for loan losses	<u>16,592</u>	<u>15,553</u>	<u>4,393</u>	<u>4,108</u>
Other operating income:				
Service fees on deposit accounts	659	656	154	182
Gain on sale of loans	-	779	-	-
Gain on sale of securities available for sale	373	29	-	-
Gain/(loss) on sale of other real estate	(10)	56	(4)	9
Other operating income	635	657	149	157
Total non-interest income	<u>1,657</u>	<u>2,177</u>	<u>299</u>	<u>348</u>
Other operating expense				
Salaries and employee benefits	7,411	6,972	1,848	1,735
Occupancy and equipment	1,519	1,431	384	344
Amortization of intangible assets	320	329	78	82
Data processing and communications	987	988	253	255
Expenses and valuation adjustments on other real estate	22	124	(2)	14
FDIC insurance	203	250	33	58
Legal, accounting and audit fees	407	452	103	120
Other operating	1,405	1,368	344	377
Total non-interest expense	<u>12,274</u>	<u>11,914</u>	<u>3,041</u>	<u>2,985</u>
Net income before taxes	<u>5,975</u>	<u>5,816</u>	<u>1,651</u>	<u>1,471</u>
Income tax expense	(2,267)	(2,208)	(625)	(558)
Net income	<u>\$ 3,708</u>	<u>\$ 3,608</u>	<u>\$ 1,026</u>	<u>\$ 913</u>
Basic earnings per common share	\$ 0.62	\$ 0.60	\$ 0.17	\$ 0.15
Basic average common shares outstanding	5,995,963	5,994,955	5,996,730	5,994,955
Diluted earnings per common share	\$ 0.62	\$ 0.60	\$ 0.17	\$ 0.15
Diluted weighted average common shares outstanding	6,014,746	5,995,166	6,039,389	5,995,799

FirstAtlantic Financial Holdings, Inc. and Subsidiary (Consolidated)

Financial Highlights (unaudited)

(dollars in thousands except per share data)

	Three Months Ended:					Years Ended,	
	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016
Per common share							
Basic earnings per common share	\$ 0.15	0.12	0.17	0.15	0.17	\$ 0.60	0.62
Diluted earnings per common share	\$ 0.15	0.12	0.17	0.15	0.17	\$ 0.60	0.62
Cash dividends paid to shareholders	\$ -	-	0.03	0.03	0.03	\$ 0.10	0.09
Basic average common shares outstanding	5,994,955	5,994,955	5,994,955	5,996,750	5,996,730	5,994,955	5,995,963
Diluted weighted average common shares outstanding	5,995,799	5,995,620	6,001,842	6,016,449	6,039,389	5,995,166	6,014,746
Income highlights							
Interest income	\$ 4,466	4,480	4,544	4,533	4,855	\$ 17,598	18,413
Interest expense	\$ 358	356	360	366	382	\$ 1,544	1,464
Net interest income	\$ 4,108	4,124	4,185	4,167	4,473	\$ 16,054	16,949
Provision for loan losses	\$ -	155	122	-	80	\$ 501	357
Non-interest income	\$ 348	348	688	322	299	\$ 2,177	1,657
Non-interest expense	\$ 2,985	3,127	3,065	3,042	3,041	\$ 11,914	12,274
Net income before taxes	\$ 1,471	1,190	1,686	1,447	1,651	\$ 5,816	5,975
Income tax expense	\$ 558	453	640	549	625	\$ 2,208	2,267
Net income	\$ 913	738	1,046	898	1,026	\$ 3,608	3,708
Key performance ratios							
Return on average assets	0.86%	0.69%	0.98%	0.83%	0.92%	0.88%	0.86%
Return on average shareholders' equity	6.22%	5.04%	7.03%	5.89%	6.71%	6.37%	6.17%
Efficiency ratio	65.28%	68.08%	66.21%	66.01%	62.04%	66.70%	65.53%
Earning asset yield	4.45%	4.45%	4.48%	4.40%	4.60%	4.57%	4.49%
Earning asset yield (less purchased loan accretion)	4.09%	4.18%	4.20%	4.16%	4.04%	4.09%	4.14%
Cost of interest bearing liabilities	0.53%	0.52%	0.54%	0.54%	0.55%	0.59%	0.54%
Net interest spread	3.92%	3.93%	3.94%	3.86%	4.05%	3.97%	3.95%
Cost of funds	0.39%	0.39%	0.39%	0.39%	0.40%	0.44%	0.39%
Net interest margin	4.09%	4.10%	4.13%	4.05%	4.24%	4.17%	4.13%
Net interest margin (less purchased loan accretion)	3.73%	3.83%	3.85%	3.80%	3.68%	3.69%	3.79%
Net charge-offs (recoveries)	\$ 160	(21)	106	14	(9)	\$ 278	90
Net charge-offs (recoveries) / average loans	0.22%	(0.03)%	0.14%	0.02%	(0.01)%	0.10%	0.03%

	Dec-15 2015	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016
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Consolidated Balance Sheet Data					
Per common share					
Book Value	\$ 9.63	9.92	10.07	10.16	10.04
Tangible book value	\$ 9.16	9.46	9.63	9.73	9.62

Capital					
Tier 1 Leverage ratio	13.63%	13.53%	13.64%	13.80%	13.63%

Asset quality data					
Nonaccrual loans	\$ 1,982	1,422	925	1,077	245
90 day past due and accruing loans	\$ -	-	-	-	-
Non-performing loans	\$ 1,982	1,422	925	1,077	245
Other real estate owned	\$ 658	\$ 658	\$ 456	\$ 444	\$ 642
Non-performing assets (excluding TDR's)	\$ 2,640	2,080	1,381	1,521	887
Non-performing assets / total assets	0.63%	0.49%	0.32%	0.35%	0.20%
Non-performing assets / total loans and OREO	0.88%	0.69%	0.44%	0.49%	0.29%
Allowance for loan losses / total loans	0.67%	0.72%	0.70%	0.70%	0.73%
Allowance for loan losses / nonperforming loans	101.50%	153.90%	238.27%	203.26%	931.18%

Key balance sheet highlights					
Total Assets	\$ 421,803	426,333	431,602	436,929	437,751
Loan to deposit ratio	85.01%	86.23%	88.10%	88.26%	88.18%
Loans: Ending balance	\$ 300,514	303,558	314,152	310,996	310,694
Loans: Quarter to date average	\$ 290,515	301,302	306,599	311,788	311,390
<i>Annualized YTD growth in total loans</i>	<i>5.03%</i>	<i>4.07%</i>	<i>9.13%</i>	<i>4.66%</i>	<i>3.39%</i>
<i>Annualized YTD growth in legacy (non acquired) loans</i>	<i>2.35%</i>	<i>13.47%</i>	<i>22.65%</i>	<i>14.75%</i>	<i>13.93%</i>
Non-interest bearing deposits: Ending balance	\$ 89,432	93,607	105,396	96,619	102,333
Non-interest bearing deposits: Quarter to date average	\$ 92,032	92,294	99,905	101,120	104,591
Non-interest bearing deposits / total deposits	25.30%	26.59%	29.56%	27.42%	29.04%
<i>Annualized growth in non-interest bearing deposits</i>	<i>9.86%</i>	<i>18.78%</i>	<i>35.90%</i>	<i>10.74%</i>	<i>14.43%</i>
Total deposits: Ending balance	\$ 353,505	\$ 352,039	\$ 356,585	\$ 352,362	\$ 352,358
Total deposits: Quarter to date average	\$ 359,900	\$ 353,647	\$ 356,447	\$ 356,916	\$ 357,512

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

	12/31/15	03/31/16	06/30/16	09/30/16	12/31/16	Years ended December 31,	
	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2015	2016
<i>(Dollars in thousands except per share data)</i>							
Interest income as stated	4,466	4,480	4,544	4,533	4,855	\$ 17,598	\$ 18,412
Less: Accelerated accretion of acquired loans	(121)	-	(60)	(9)	(373)	(539)	(442)
Core interest income	4,345	4,480	4,484	4,524	4,482	17,059	17,970
Interest expense as stated	358	356	359	366	382	1,544	1,463
Net interest income as stated	4,108	4,124	4,185	4,167	4,473	16,054	16,949
Core net interest income	3,987	4,124	4,125	4,158	4,100	15,515	16,507
Provision for loan losses	-	155	122	-	80	501	357
NII after provision for loan losses as stated	4,108	3,969	4,063	4,167	4,393	15,553	16,592
Non-interest income as stated	348	348	688	322	299	2,177	1,657
Gain on sales of securities available for sale	-	-	(373)	-	-	(29)	(373)
Gain on sales of portfolio loans	-	-	-	-	-	(779)	-
Net (gain) or loss on sale of OREO & valuations	(9)	-	7	-	3	(56)	10
Core Non-Interest Income	339	348	322	322	302	1,313	1,294
Non interest expense as stated	2,985	3,125	3,065	3,042	3,041	11,914	12,273
Less: Amortization expense on intangible assets	(83)	(83)	(81)	(78)	(78)	(329)	(320)
Expense of disposition of premises and equipment	(2)	-	-	-	-	(2)	-
Impairment of Other Real Estate	(22)	-	-	-	-	(72)	-
Other non-recurring expenses	-	(31)	(63)	(14)	-	(51)	(108)
Core Noninterest Expense	2,878	3,011	2,921	2,950	2,963	11,460	11,845
Net Income before taxes as stated	1,471	1,192	1,686	1,447	1,651	5,816	5,976
Net non-core interest items from above	(121)	-	(60)	(9)	(373)	(539)	(442)
Provision for loan losses from above	-	155	122	-	80	501	357
Non-core non-interest income from above	(9)	-	(366)	-	3	(864)	(363)
Non-core non-interest expense from above	107	114	144	92	78	454	428
Core Pre-tax , Pre-provision Net Income	1,448	1,461	1,526	1,530	1,439	5,368	5,956
Income tax expense as stated	558	453	640	550	625	2,208	2,268
Core Income tax expense	549	554	579	580	546	2,036	2,259
Net Income as stated	913	739	1,046	897	1,026	3,608	3,708
Core Pre-provision Net Income	898	907	947	950	893	\$ 3,332	\$ 3,697

Key Core pre-provision Income Performance Ratios (Tax Effectuated)

Basic earnings per share	\$ 0.15	\$ 0.15	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.56	\$ 0.62
Diluted earnings per share	\$ 0.15	\$ 0.15	\$ 0.16	\$ 0.16	\$ 0.15	\$ 0.56	\$ 0.61
Return on average assets	0.85%	0.85%	0.89%	0.88%	0.80%	0.82%	0.85%
Return on average equity	6.41%	6.19%	6.37%	6.31%	5.84%	6.67%	6.15%
Yield on earning assets	4.33%	4.45%	4.42%	4.41%	4.25%	4.44%	4.38%
Cost of interest bearing liabilities	0.53%	0.52%	0.54%	0.54%	0.55%	0.59%	0.54%
Cost of funds	0.39%	0.39%	0.39%	0.39%	0.40%	0.47%	0.39%
Net interest margin	3.97%	4.10%	4.07%	4.05%	3.89%	3.81%	4.02%
Non interest income / average assets	0.32%	0.33%	0.30%	0.30%	0.27%	0.34%	0.30%
Non interest expense / average assets	2.71%	2.84%	2.73%	2.72%	2.67%	2.81%	2.74%
Efficiency ratio	66.53%	67.33%	65.68%	65.85%	67.31%	68.10%	66.54%