

# ATLANTIC CAPITAL

## BANCSHARES

October 30, 2009

To our shareholders:

Despite a treacherous economic environment, Atlantic Capital made satisfactory progress during the third quarter. Total assets grew 6.5% from the prior quarter end to \$649.5 million, credit quality and capital levels remained strong, and we posted improved operating results.

### **3<sup>rd</sup> Quarter Financial Results**

Gross loans increased 9.3% during the quarter to \$556.7 million. The composition of our loan portfolio reflects our continued and disciplined focus on small and mid-sized corporations (46%), top tier commercial real estate developers and investors (46%), and private clients (8%).

Our borrowing clients are navigating the severe economic recession carefully and are performing largely according to our expectations. We moved our only two troubled credits totaling \$9.5 million, or 1.39% of assets, to non-accrual status during the quarter as we negotiated with those borrowers toward restructured agreements.

In recognition of probable partial losses on these credits, we boosted our allowance for loan losses to \$12.5 million, or 2.26% of total loans. Our level of non-accrual loans is substantially lower and our allowance coverage of non-accruals is comparatively higher than any of our regional competitors or business model peers across the country. Credit quality at Atlantic Capital is superior by any measure.

Average deposits grew 17.6% to \$504.6 million as we added new business from corporate, financial institution, real estate, and private clients. Growth in core relationship deposit business is a high priority for our bankers. New clients consistently mention the competitive functionality of *Atlantic Capital Direct*, our technologically advanced corporate cash management platform, and confidence in our financial strength as reasons for moving their operating and depository business to us.

Our capital levels remain among the highest in the banking industry. At quarter end, our Tier 1 common equity ratio was 15.6%, roughly twice the standard stipulated by our regulators for highly capitalized *de novo* institutions.

Net interest income before loan loss provision was \$4.7 million, up 7.6% from the prior quarter on higher loan and securities balances, improved yields on performing loans, and lower deposit costs. The net loss for the quarter was \$3.4 million after a loan loss provision of \$3.9 million.

Problem credits and loan losses are a normal part of the banking business and should be expected in this economic climate. Related credit costs, including accrual income reversals, reserve building, workout expense, and eventual charge-offs, have a material effect on current profitability for Atlantic Capital and for all banks. However, we are making good progress building core profitability in our business and expect to record net income next year as originally planned.

You may view our unaudited third quarter financial statements on a secure page on our website by following the instructions at the end of this letter. We have also included other financial data and a chart comparing key financial metrics at Atlantic Capital to those of other banking companies.

## **Our Priorities**

We began our business in May of 2007 in the midst of one of the longest economic expansions on record. While we recognized that excesses had developed in certain sectors of the economy and fashioned strategies designed to be resilient through normal cycles, the duration and severity of this recession are worse than we envisioned.

Although the troubles of our competitors have given us more opportunity to develop business with higher quality clients earlier than we originally anticipated, weak loan demand, deteriorating borrower performance, capital markets stress, and an extended period of historically low interest rates have resulted in an exceedingly difficult environment in which to build a new banking business.

Despite some recent indications of improvement in the economy and strong equity market performance over the last two quarters, we expect a tepid and fragile recovery, with substantial downside risk, to develop through 2010.

Accordingly, our priorities for the next several quarters reflect a defensive and opportunistic posture. They are to maintain superior credit quality, grow core relationship deposits, build profitability, and selectively add new loans.

Superior credit quality is the most important ingredient in the only reliable recipe for sustained success in banking. Atlantic Capital's seasoned bankers and risk management officers are working diligently to ensure that this is the primary strength of our company. We choose borrowing clients carefully, underwrite their businesses and projects thoroughly, structure loans soundly, monitor borrower performance closely, and act to remedy potential problems early and aggressively.

While we are pleased with the performance of our borrowers during this period of economic stress, we expect the overall level of risk in the economy and in our loan portfolio to remain elevated for another year or more. In particular, commercial real estate borrowers are vulnerable to excess capacity, softening rental income streams, and limited capital available to refinance maturing loans. Commercial property values in Atlanta have declined significantly with no meaningful prospect of recovery on the horizon.

Atlantic Capital's commercial real estate finance business is focused on financially strong developers and investors with successful experience through earlier cycles. Approximately 74% of our commercial real estate loans are to income producing projects. Construction and land loan exposure is limited. Essentially all of our real estate credits are supported by individual or corporate guarantors with considerable financial resources.

Our balance sheet growth will be paced by core relationship deposit development. Deposits generated by corporate operating business and private client relationships are the most stable and least costly funding available for our business. Superior service capabilities, operational reliability, and attentive customer care are the foundation of our efforts in this vital aspect of our business.

While cyclically higher credit costs and persistent low interest rates have made our drive to profitability challenging, we are encouraged by growth in our core operating results. Higher loan yields driven by wider credit spreads and new interest rate floors and lower deposit costs resulting from progress in development of corporate operating business have produced a level of net interest income sufficient for sustained profitability in 2010 as originally planned. Anticipated balance sheet growth and better loan and deposit pricing trends suggest further improvement in core profitability in the months ahead.

New loan demand has diminished in recent months as the economy has contracted and is expected to remain soft through next year. Furthermore, we expect to remain cautious in extending new credit commitments while difficult economic conditions persist.

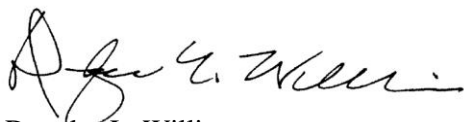
Most of our new borrowing clients have been dissatisfied with the service and attention from our large competitors and have responded to the new ideas and promise of better service offered by Atlantic Capital. Our objective is to build enduring relationships with high quality corporate, real estate, and private clients and these prospects are even more receptive to us in this period of economic stress.

We believe Atlantic Capital is well positioned for continued progress with strong capital, superior credit quality, and an experienced team of bankers and managers.

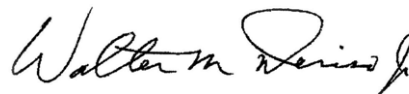
We are grateful that many of you have moved your banking business to Atlantic Capital and referred others to us. For those of you still banking elsewhere, remember that the best thing you can do to enhance the value of your investment is to move your business to Atlantic Capital. Please call us today.

Thank you for your confidence in us as we build your business during this challenging economic environment. As always, we welcome your comments, questions, and suggestions.

Sincerely,



Douglas L. Williams  
President and Chief Executive Officer



Walter M. Deriso, Jr.  
Chairman of the Board

**INSTRUCTIONS TO VIEW**  
**QUARTERLY FINANCIAL STATEMENTS**

1. Go to [www.atlanticcapitalbank.com](http://www.atlanticcapitalbank.com)
2. Click **About Us**, **Investor Relations** and **Secure Content**
  - a. Note: **Secure Content** is displayed on the far right below **Contact Us**.
3. Enter User name and Password below.
  - a. User name: **acb**
  - b. Password: **atlantic01**