

# Carolina Commerce Bank

## Message to Stockholders

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February 9, 2009

Dear Shareholder:

2008 was a tumultuous year for our country, the financial sector specifically, our local communities, and our customers. The economic downturn, leading our nation into a recession for the first time in nearly two decades, has created stress on the credit portfolios of all financial institutions, including Carolina Commerce. Our results for 2008 certainly mirror the difficult times felt by many of our customers and our community.

Compounding the stress on earnings is the Federal Reserve Bank's moves to stay the recession by initiating seven reductions in short-term interest rates throughout 2008. These reductions totaled 400 basis points, resulting in an unprecedented overnight bank borrowing rate approaching 0.0%. This has resulted in the Bank's net interest margin (defined as the interest spread as a percent of average earning assets) declining from 3.73% for the year ended 2007 to 2.97% for the current year, which has had a significant impact on our decrease in earnings.

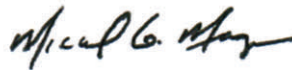
As of December 31, 2008, total assets of Carolina Commerce Bank exceeded \$104 million, representing a 17% increase over the prior year. This was accomplished despite the tightening of the credit markets and the Bank's successful efforts to move some undesirable loans out of the Bank. Total loans increased over \$6 million or 8.8% to total \$78.3 million at year end. As the loan portfolio experienced increased stress, especially in the fourth quarter, management worked diligently to identify problems and address those problems appropriately resulting in net charge-offs for the year totaling \$799,000. The Allowance for Loan Losses was 1.59% of total loans at December 31, 2008, which management believes is an appropriate level to provide for potential future losses, not yet identified, if the economic and credit conditions are to deteriorate further and compares favorably to our peers.

The Bank's capital position remains strong. Shareholder's equity at December 31, 2008 totaled \$10.1 million, which equates to a total risk-based capital ratio of 13.4%. This is considerably above the highest regulatory capital threshold of 10%. The Bank reported a net loss for 2008 of (\$987,000), driven primarily by compressed net interest income and higher charge-offs, as previously discussed. This is compared to net income for 2007 of \$414,000. While the 2008 results are certainly not what we hoped to achieve, we are confident that our strong capital position provides a stable base from which to move forward and continue the growth of the Bank.

At Carolina Commerce Bank we are committed to seeking ways to provide the highest level of service as well as improve upon our performance through focused expense control, improved products, and recruiting and retaining talented, knowledgeable staff. We are positioning your bank for future growth and to take advantage of improvements in the economy.

We appreciate the support of our shareholders and are always striving to enhance the value of your shares over time. As always, we welcome your suggestions and comments.

For the Board of Directors and Management



Michael G. Mayer  
*President and CEO*



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## Financial Report

### December 31, 2008

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## Carolina Commerce Bank

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## Carolina Commerce Bank Condensed Balance Sheets

	December 31, 2008 <i>(Unaudited)</i>	December 31, 2007 <i>(Audited)</i>	Change
<b>Assets</b>			
Cash and Due from Banks	\$ 2,821,024	\$ 3,907,849	(27.8%)
Interest Bearing Deposits and Fed Funds Sold	212,599	121,717	74.7%
Investment Securities	18,168,577	9,202,540	97.4%
Gross Loans	78,273,395	71,923,717	8.8%
Allowance for loan losses	(1,242,281)	(1,586,500)	(21.7%)
Net Loans	77,031,114	70,337,217	9.5%
Fixed Assets	3,732,663	3,818,011	(2.2%)
Other Assets	2,123,998	1,406,426	51.0%
Total Assets	\$ 104,089,975	\$ 88,793,760	17.2%
<b>Liabilities</b>			
Deposits			
Noninterest Bearing Demand	\$ 3,793,851	\$ 4,611,158	(17.7%)
Interest Bearing Demand	5,319,298	4,185,909	27.1%
Savings and Money Market	7,266,089	11,503,106	(36.8%)
Time	67,391,578	55,145,344	22.2%
Total Deposits	83,770,816	75,445,517	11.0%
Federal Funds Purchased	1,227,000	264,000	364.8%
Other Short-Term Borrowings	8,550,000	2,000,000	327.5%
Other Liabilities	486,563	194,734	149.9%
Total Liabilities	94,034,379	77,904,251	20.7%
<b>Stockholders' Equity</b>			
Common Stock	6,184,375	6,184,375	0.0%
Surplus	6,907,944	6,898,318	0.1%
Accumulated Deficit	(3,244,818)	(2,257,860)	43.7%
Accumulated Other Comprehensive Income (Loss), net of tax effect	208,095	64,676	221.7%
Total Shareholders' Equity	10,055,596	10,889,509	(7.7%)
Total Liabilities and Shareholders' Equity	\$ 104,089,975	\$ 88,793,760	17.2%

## Carolina Commerce Bank Condensed Statements of Operations

	Three Months Ended		Year Ended	
	December 31, 2008 <i>(Unaudited)</i>	December 31, 2007 <i>(Unaudited)</i>	December 31, 2008 <i>(Unaudited)</i>	December 31, 2007 <i>(Audited)</i>
<b>Interest Income</b>				
Loans and Fees on Loans	\$ 1,174,954	\$ 1,689,171	\$ 4,935,334	\$ 7,049,213
Investment Securities	245,416	97,491	550,869	429,921
Other interest income	4,417	6,023	58,474	23,951
Total Interest Income	1,424,787	1,792,685	5,544,677	7,503,085
<b>Interest Expense</b>				
Deposits	752,618	840,941	2,930,274	3,845,862
Other interest expense	23,515	65,862	72,217	224,663
Total Interest Expense	776,133	906,803	3,002,491	4,070,525
<b>Net Interest Income</b>	648,654	885,882	2,542,186	3,432,560
<b>Provision for Loan Losses</b>	768,513	84,934	455,244	413,182
Net Interest Income after Provision for Loan Losses	(119,859)	800,948	2,086,942	3,019,378
<b>Noninterest Income</b>				
Service Charges	15,411	15,726	57,782	61,425
Other Income	8,424	33,440	102,750	199,845
Total Noninterest Income	23,835	49,166	160,532	261,270
<b>Noninterest Expense</b>				
Salaries and Employee Benefits	429,406	512,673	1,615,774	1,475,305
Occupancy and Equipment	81,447	173,738	329,855	322,738
Other Expenses	367,394	329,918	1,288,802	1,068,918
Total Noninterest Expense	878,247	1,016,329	3,234,431	2,866,961
<b>Net (Loss) Income before Income Taxes</b>	(974,271)	(166,215)	(986,957)	413,687
Income Taxes	-	-	-	-
<b>Net (Loss) Income</b>	\$ (974,271)	\$ (166,215)	\$ (986,957)	\$ 413,687

### Board of Directors - Carolina Commerce Bank

<b>John S. Lowery</b> (Chairman of the Board)	CEO & Manager Partner, Wealthplan Financial Partners, LLC
<b>John A. Boals</b>	President, Driven Dynamics Investments, Inc.
<b>W. D. "Butch" Kerns, Jr.</b>	Retired, former President and CEO, Kerns Trucking Co., Inc.
<b>Duane K. McCallister</b>	Retired, former Publisher, The Gaston Gazette
<b>Nancy B. Paschall</b>	Principal, Mullen, Holland & Cooper, P.A., Attorneys
<b>Giusto Piraino</b>	Private Investor, former President and CEO, Stefano Foods, Inc.
<b>Peter D. Rauch</b>	Private Investor, former CEO, Rauch Industries, Inc.
<b>Frederick P. Spach, Jr.</b>	President and CEO, Carolina Brush Manufacturing Co., Inc.

