

the little bank

We Want to Know You.

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March 4, 2009

Mr. Neil M. Barofsky
Special Inspector General - TARP
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

Via email: SIGTARP.response@do.treas.gov

Dear Mr. Barofsky,

Thank you for your inquiry dated February 6, 2009 in which you requested that I update you on several matters related to **the little bank's** use of the US Treasury's Capital Purchase Program preferred stock investment ("TARP funds").

The anticipated use of the funds will be towards continued moderate loan growth during the next several years. This loan growth would probably not otherwise have been considered given that the Bank's earnings and capital growth have been so negatively impacted by reduced interest margins resulting from the Federal Reserve's recent aggressive reduction in interest rates. (b) (4)

(b) (4)
It improves Management's ability to work with our borrowers through these difficult times. (b) (4)

(b) (4)

The Bank has recorded its TARP funds on the general ledger in a preferred stock account. The actual funds are comingled with all of the Bank's overnight funds and investments.

(b) (4)

(b) (4) This is even truer given the FDIC's February 27th decision to charge a special premium assessment in the third quarter of 2009. The US Treasury's TARP investment gives the Bank's Management and Board of Directors the confidence they need to continue to lend prudently and operate normally in support of the Bank's customers.

The Board of Directors of **the little bank** has designated a Compensation Committee to review all compensation arrangements with senior executive officers to ensure that such arrangements do not encourage unnecessary and excessive risks that threaten the value of the financial institution. This Committee will ensure that limitations on executive compensation will be implemented in line with the Department of Treasury guidelines.

Regarding quantitative information, please refer to the Bank's 2009 Budget (attached). (b) (4)

Mr. Barofsky
March 4, 2009
Page -2-

(b) (4)

(b) (4) The TARP funds however will allow **the little bank** to stay on budget with respect to loan growth, providing economic support to the communities we serve in Eastern North Carolina.

I have also attached the Bank's December 30, 2008 press release in which it was announced that **the little bank** had completed the sale of preferred stock under the US Treasury's Capital Purchase Program. Please call or otherwise respond if I may provide additional information.

The undersigned executive officer, being hereunto duly authorized, hereby certifies the accuracy of the foregoing statements and representations, including those in the supporting information provided herewith, subjected to the requirements and penalties set forth in 18 U.S.C. Section 1001.

Sincerely yours,



Doyle M. Thigpen
CFO/Executive Vice President

Attachments

Press Release

FOR IMMEDIATE RELEASE

CONTACT: Doyle M. Thigpen, Chief Financial Officer
(252) 317-2804

DATE: December 30, 2008

the little bank Completes the Sale of Preferred Shares Under the U.S. Treasury's Capital Purchase Program

Kinston, NC – (Business Wire) – December 30, 2008 - the little bank (OTCBB: LTLB) (the "Bank") announced it has completed the issuance and sale of \$7.5 million in preferred stock as part of the U.S. Department of the Treasury's Capital Purchase Program ("TCPP"). The little bank closed on these funds on December 23, 2008. The TCPP is designed to attract broad participation from healthy banking institutions to help stabilize the financial system and increase lending for the benefit of the U.S. economy.

"This additional capital will give us the capacity to grow our loan portfolio while maintaining healthy capital ratios during this difficult economic cycle," said Vincent R. Jones, CEO of the little bank.

Jones added, "As a local community bank, we are very excited about the opportunity to deploy new capital on behalf of our communities and customers." Jones said participation in the program makes economic sense as this capital is attractively priced relative to other sources. The capital gives the Bank additional flexibility by allowing for \$75-\$100 million in new loan growth over the next several years. After closing on this new capital, the little bank's total risk based capital ratio is over 13%, well above the regulatory level for well capitalized banks.

As a TCPP participant, the little bank issued \$7.5 million in preferred stock, on which the Bank will pay non-cumulative dividends on a quarterly basis. The Bank will pay dividends at a rate of 5% per annum until the fifth anniversary when the rate increases to 9% per annum. The stock carries no voting rights and may be repaid at any time during the first three years using the proceeds from a common stock offering or another preferred stock issuance. The terms and conditions of the transaction and the preferred stock will conform to those provided by the U.S. Treasury. A summary of the Capital Purchase Program can be found on the Treasury's website at <http://www.ustreas.gov/initiatives/eesa>.

The little bank is headquartered in Kinston, North Carolina and currently serves the Lenoir, Wayne, Onslow, Pitt, and Craven county markets. The Bank prides itself on the special care with which it serves its customers. The Bank's website is www.thelittlebank.com. The little bank stock can be found on the Over-the-Counter Electronic Bulletin Board trading under the symbol LTLB.

This press release includes certain forward-looking statements in reliance on the "safe-harbor" provisions of The Private Securities Litigation Reform Act of 1995. Any such forward-looking statements are subject to a number of risks and uncertainties. Actual results may differ materially from those anticipated in any such forward-looking statements. The Bank undertakes no obligation to update or revise any such forward-looking statements.

2009 Budget

2009 Budget

2008 Projected

2009 Budget Revised

Balance Sheet

1	Loans	(b) (4)	244,000	(b) (4)
2	Loan reserves	(b) (4)	<u>(3,875)</u>	(b) (4)
3	Loans, net	(b) (4)	240,125	(b) (4)
4	Investments	(b) (4)	61,000	(b) (4)
5	Other assets	(b) (4)	<u>13,875</u>	(b) (4)
6	Total assets	(b) (4)	315,000	(b) (4)
7	Deposits	(b) (4)	248,500	(b) (4)
8	Borrowings	(b) (4)	34,000	(b) (4)
9	Other liabilities	(b) (4)	1,060	(b) (4)
10	Stockholders equity	(b) (4)	<u>31,440</u>	(b) (4)
11	Total Liab & Net Worth	(b) (4)	315,000	(b) (4)

Income Statement

12	Interest income - loans	(b) (4)	14,967	(b) (4)
13	Interest income - investments	(b) (4)	<u>1,870</u>	(b) (4)
14	Interest income	(b) (4)	16,837	(b) (4)
15	Interest expense - deposits	(b) (4)	7,813	(b) (4)
16	Interest expense - borrowings	(b) (4)	<u>1,625</u>	(b) (4)
17	Interest expense	(b) (4)	9,438	(b) (4)
18	Net interest income	(b) (4)	7,399	(b) (4)
19	Provision for loan losses	(b) (4)	<u>700</u>	(b) (4)
20	Net interest income after provision	(b) (4)	6,699	(b) (4)

Noninterest income:

21	Loan fee income	(b) (4)	845	(b) (4)
22	Service charges & other fees	(b) (4)	883	(b) (4)
23	BOLI earnings	(b) (4)	<u>146</u>	(b) (4)
24	Total noninterest income	(b) (4)	1,874	(b) (4)

Operating expenses:

25	Personnel expense	(b) (4)	3,787	(b) (4)
26	Building & equipment	(b) (4)	602	(b) (4)
27	Data processing	(b) (4)	573	(b) (4)
28	Advertising	(b) (4)	116	(b) (4)
29	Professional fees & FDIC insurance	(b) (4)	300	(b) (4)
30	Loss on Sale of OREO / Other Investment	(b) (4)	200	(b) (4)
31	Other expense	(b) (4)	<u>758</u>	(b) (4)
32	Total operating expenses	(b) (4)	6,336	(b) (4)
33	Income before taxes	(b) (4)	2,237	(b) (4)
34	Tax provision	(b) (4)	<u>821</u>	(b) (4)
35	Net Income	(b) (4)	1,416	(b) (4)

- 35 yield on loans
- 36 cost of deposits
- 37 spread
- 38 yield on investments
- 39 cost of borrowings

ROAA
ROAE
Efficiency Ratio

actual
(b) (4)

2009 Budget2008 Projected2009 Budget RevisedNon-interest Income - Detail:

1	Loan Fees - mortgage	(b) (4)	346	(b) (4)
2	Loan Fees - other loans	(b) (4)	453	(b) (4)
3	Loan Fees - late charges	(b) (4)	46	(b) (4)
4	Total Loan Fees	(b) (4)	845	(b) (4)
5	Service Charges - Checking	(b) (4)	75	(b) (4)
6	NSF Charges	(b) (4)	460	(b) (4)
7	ATM Surcharges	(b) (4)	31	(b) (4)
8	Other Service Fees	(b) (4)	220	(b) (4)
9	Brokerage Commissions	(b) (4)	11	(b) (4)
10	Other (insurance, rental, SBIC income)	(b) (4)	<u>86</u>	(b) (4)
11	Service Fees & Charges	(b) (4)	883	(b) (4)

Operating Expenses - Detail:**Personnel:**

12	Salaries	(b) (4)	3,026	(b) (4)
13	Payroll Taxes, Benefits, Directors Fees	(b) (4)	<u>761</u>	(b) (4)
14	Total Personnel	(b) (4)	3,787	(b) (4)

Occupancy & Equipment:

15	Rent - Building	(b) (4)	128	(b) (4)
16	Utilities	(b) (4)	63	(b) (4)
17	Depreciation - Building & Leasehold	(b) (4)	92	(b) (4)
18	Repairs & Maintenance - Building	(b) (4)	80	(b) (4)
19	Other Expense - Building	(b) (4)	52	(b) (4)
20	Depreciation - Furniture, Fixtures & Equip	(b) (4)	179	(b) (4)
21	Repairs & Maintenance - Equipment	(b) (4)	7	(b) (4)
22	Other Expense - Equipment	(b) (4)	<u>1</u>	(b) (4)
23	Total Building & Equipment	(b) (4)	602	(b) (4)

Professional Fees:

24	Audit, Tax Return & Accounting	(b) (4)	72	(b) (4)
25	Supervisory Exam Fees	(b) (4)	39	(b) (4)
26	FDIC Premiums	(b) (4)	185	(b) (4)
27	Legal	(b) (4)	<u>4</u>	(b) (4)
28	Total Professional	(b) (4)	300	(b) (4)

Other:

29	Loan & Collection	(b) (4)	54	(b) (4)
30	Supplies	(b) (4)	144	(b) (4)
31	Postage	(b) (4)	52	(b) (4)
32	Courier	(b) (4)	42	(b) (4)
33	Telephone	(b) (4)	107	(b) (4)
34	Travel & Entertainment	(b) (4)	44	(b) (4)
35	General Insurance	(b) (4)	37	(b) (4)
36	Dues, Subscriptions, Seminars	(b) (4)	21	(b) (4)
37	Franchise Tax	(b) (4)	40	(b) (4)
38	Contributions	(b) (4)	16	(b) (4)
39	Consulting / Compliance Audit	(b) (4)	86	(b) (4)
40	Other	(b) (4)	<u>115</u>	(b) (4)
41	Total Other	(b) (4)	758	(b) (4)



the little bank

We Want to Know You.

April 30, 2009

Mr. Neil M. Barofsky
Special Inspector General – TARP
Troubled Asset Relief Program
1500 Pennsylvania Ave, NW Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

Please find enclosed the little bank's 2008 Audited Financial Statements, 2008 Annual Report, and 2009 Proxy Statement.

If you have any questions, please don't hesitate to contact me at (b) (6) Thank you.

Best Regards,

Doyle Thigpen
Executive Vice President & CFO



2008
ANNUAL REPORT

the little bank
TABLE OF CONTENTS

	<u>Page No.</u>
Letter To Our Shareholders.....	3
Financial Statements	
Financial Highlights.....	4
Balance Sheets.....	5
Statement of Operations.....	6
Notes to Summary Financial Statements.....	7-8
little bank Executive Officers, Board of Directors & Stock Information.....	9

10th Anniversary
1998-2008

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We Want to Know You

To Our Shareholders,

"We Want to Know You" is more than a slogan at the little bank, it is a call to action as we strive to serve you. Each day we endeavor to communicate this theme in our words and our actions. Our team works diligently to live this out with our customers. We recognize that being mindful in the little details as well as the big picture is crucial to our success.

As the little bank enters 2009, the Bank remains very well capitalized and well-positioned to weather tough economic storms. Your Board of Directors and Management team has placed great emphasis on maintaining a strong capital position in order to protect shareholders, customers and the communities we serve. To this end, on December 23rd, the little bank completed the issuance and sale of \$7.5 million in preferred stock as part of the U.S. Department of the Treasury's Capital Purchase Program ("TCPP"). The TCPP is designed to attract broad participation from healthy banking institutions to stabilize the financial system and increase lending for the benefit of the U.S. economy. Our participation in the program made economic sense as this capital was attractively priced relative to other sources. As of December 31, 2008, the little bank's total risk based capital ratio was 13.7%, well above the regulatory threshold of 10% for well capitalized banks.

Declining net interest margins impacted net income in 2008 and will continue to have an effect on earnings during 2009. The Federal Reserve has cut rates 500 basis points since September 2007, reducing the Prime Rate from 8.25% to 3.25%. What this means to the little bank and many small financial institutions is that our variable rate loan portfolio re-prices immediately while it takes longer for fixed priced CD's to follow, resulting in less margin. Net income is much more difficult to generate in this type of an environment. For 2008, the little bank earned \$1.4 million compared to \$2.4 million in 2007.

While we believe that our loan quality is solid at this time, we are not naïve regarding the impact that a struggling economy can have on all credit markets. We expect and are prepared for the fact that our loan losses may increase during this cycle. Our best protection is our geographic location. A new heart center and dental school in Pitt County, an expanding military presence throughout the region, and an exciting new Spirit AeroSystems announcement in Lenoir County have Eastern North Carolina better positioned for long term growth than at anytime we can remember. We remain positive about the long term prospects for our markets in Eastern North Carolina, our shareholders, and our customers as we move through this unprecedented economic cycle.

Net income for the year was \$1.4 million, down 42% compared to the \$2.4 million reported for 2007. Return on average tangible equity decreased to 5.9%. Total assets increased 12% to end the year at \$315.5 million, a \$33.5 million increase over year end 2007. Loans, net of reserves, increased \$16.2 million or 7% to \$240.1 million as of December 31, 2008. Total deposits increased \$18.7 million or 8% to \$248.9 million. While year end credit quality statistics were solid, we are preparing for a difficult operating environment in 2009. Credit quality continues to be paramount for Management and the Board of Directors.

10 Year Anniversary

2008 marked the Bank's ten year anniversary serving Eastern North Carolina. The little bank was founded in November 1998 in Kinston, NC. Since inception, the Bank's guiding principal is that old fashioned, personal service is as valuable today as it was 100 years ago. At the little bank, we do want to know you. We pride ourselves at being big enough to handle our customers' needs and small enough to know what their needs are. Over the past 10 years, we have strived to serve and positively impact our communities. We are thankful to have celebrated 10 years of business, and we look forward to many more years.

Sincerely,



R. Lee Burrows, Jr.
Chairman of the Board



Vincent R. Jones
President & Chief Executive Officer



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FINANCIAL HIGHLIGHTS

Years Ended December 31, 2008, 2007 and 2006 (Dollars in thousands, Except per share data)

	2008	2007	2006
Earnings Summary:			
Revenues from operations*	\$ 9,073	\$ 10,005	\$ 8,932
Net Income	1,416	2,428	2,146
Per Common Share:			
Net income basic	\$.62	\$ 1.07	\$.95
Net income diluted	\$.61	\$ 1.05	\$.93
Book value per common share	\$ 10.41	\$ 9.87	\$ 8.81
Selected Year-End Balances:			
Loans, net of unearned income	\$244,023	\$227,092	\$181,510
Other interest earning assets	61,260	42,800	40,986
Total Assets	315,640	282,182	230,747
Deposits	248,866	230,173	204,162
Stockholder's equity	31,441	22,467	19,974
Selected Performance Ratios:			
Return on average assets	.47%	.94%	1.01%
Return on average equity	5.90%	11.40%	11.26%
Efficiency ratio	67.63%	57.84%	55.40%
Asset Quality Ratios:			
Allowance for loan losses to period-end loans	1.59%	1.40%	1.59%
Net loan charge-offs to average loans	0.00%	0.07%	0.02%
Capital Ratios:			
Total risk-based capital	13.70%	10.92%	11.86%
Tier 1 risk-based capital	12.44%	9.66%	10.61%
Tier 1 leverage ratio	9.77%	7.96%	8.62%
Equity to assets	9.96%	7.96%	8.66%
Number of Common Shares:			
Basic	2,284,040	2,274,358	2,265,576
Diluted	2,301,769	2,319,259	2,311,166
Outstanding at end of period	2,300,212	2,276,281	2,268,305

* Net interest income and non-interest income



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BALANCE SHEETS

December 31, 2008 and 2007 (Dollars in thousands)

ASSETS	2008	2007
Cash and due from banks	\$ 3,212	\$ 4,430
Interest-earning deposits with banks	22,215	2,540
Federal funds sold	482	6,121
Certificates of deposit with banks	-	1,100
Investment securities available for sale	38,563	33,039
Loans	244,023	227,092
Allowance for loan losses	(3,877)	(3,169)
NET LOANS	240,146	223,923
Accrued interest receivable	1,422	1,695
Federal Home Loan Bank stock	2,038	1,674
Bank premises and equipment, net	2,745	2,608
Bank-owned life insurance	3,375	3,230
Other assets	1,442	1,822
TOTAL ASSETS	<u>\$ 315,640</u>	<u>\$ 282,182</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 45,130	\$ 41,899
Savings	1,289	1,085
Money market and NOW	30,897	23,601
Time	171,550	163,388
TOTAL DEPOSITS	248,866	230,173
Federal Home Loan Bank advances	34,000	28,000
Accrued interest payable	974	1,061
Accrued expenses and other liabilities	359	481
TOTAL LIABILITIES	<u>284,199</u>	<u>259,715</u>
Stockholders' Equity		
Preferred Stock, Series A and Series B	7,495	-
Common stock, no par value, 24,000,000 shares authorized	20,210	20,002
Retained earnings	3,287	2,247
Accumulated other comprehensive income	449	218
TOTAL STOCKHOLDERS' EQUITY	<u>31,441</u>	<u>22,467</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 315,640</u>	<u>\$ 282,182</u>

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STATEMENT OF OPERATIONS

Year Ended December 31, 2008, 2007 and 2006 (Dollars in thousands, except per share data)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
INTEREST INCOME			
Loans	\$ 15,466	\$ 16,555	\$ 13,053
Investment securities	1,641	1,520	994
Federal funds sold	51	228	602
Interest-bearing deposits with banks	178	303	251
TOTAL INTEREST INCOME	<u>17,336</u>	<u>18,606</u>	<u>14,900</u>
INTEREST EXPENSE			
Money market, NOW and savings deposits	879	1,344	1,505
Time deposits	6,935	7,681	5,172
Advances from the Federal Home Loan Bank	1,625	801	330
TOTAL INTEREST EXPENSE	<u>9,439</u>	<u>9,826</u>	<u>7,007</u>
NET INTEREST INCOME	7,897	8,780	7,893
PROVISION FOR LOAN LOSSES	<u>700</u>	<u>425</u>	<u>600</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>7,197</u>	<u>8,355</u>	<u>7,293</u>
NONINTEREST INCOME			
Service charges and fees on deposit accounts	605	542	497
Fees from presold mortgages	346	390	333
Impairment charge on non-marketable equity security	(200)	-	-
Other	425	293	209
TOTAL NONINTEREST INCOME	<u>1,176</u>	<u>1,225</u>	<u>1,039</u>
NONINTEREST EXPENSE			
Salaries and employee benefits	3,787	3,654	3,110
Occupancy	639	614	504
Data processing	536	488	442
Marketing	116	116	145
Other	1,058	915	747
TOTAL NONINTEREST EXPENSE	<u>6,136</u>	<u>5,787</u>	<u>4,948</u>
INCOME BEFORE INCOME TAXES	2,237	3,793	3,384
INCOME TAXES	<u>821</u>	<u>1,365</u>	<u>1,238</u>
NET INCOME	<u>\$ 1,416</u>	<u>\$ 2,428</u>	<u>\$ 2,146</u>
PREFERRED STOCK DIVIDENDS	<u>9</u>	<u>-</u>	<u>-</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 1,407</u>	<u>\$ 2,428</u>	<u>\$ 2,146</u>
NET INCOME PER COMMON SHARE			
Basic	<u>\$.62</u>	<u>\$ 1.07</u>	<u>\$.95</u>
Diluted	<u>\$.61</u>	<u>\$ 1.05</u>	<u>\$.93</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	<u>2,284,040</u>	<u>2,274,358</u>	<u>2,265,576</u>
Diluted	<u>2,301,769</u>	<u>2,319,259</u>	<u>2,311,166</u>

NOTES TO SUMMARY FINANCIAL STATEMENTS

Organization and Nature of Operations

the little bank (the "Bank") was incorporated as a North Carolina chartered savings bank on September 16, 1998 and began operations on November 9, 1998. The Bank is headquartered in Kinston, North Carolina and has as its principal market area, Lenoir, Wayne, Onslow, Craven and Pitt Counties. The Bank operates under the laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Banking Commission. The Bank undergoes periodic examinations by those regulatory authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans.

Investment Securities

Available-for-sale securities are reported at fair value and consist of bonds and notes not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses on available-for-sale securities are reported as a net amount in other comprehensive income, net of income taxes. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield over the lives of the related loans. The recognition of interest income is discontinued when, in management's opinion, the collection of all or a portion of interest becomes doubtful or the loan becomes ninety days delinquent. Loans are returned to accrual status when the factors indicating doubtful collectibility cease to exist and the loan has performed in accordance with its terms for a demonstrated period of time. The past due status of loans is based on the contractual payment terms.

A loan is considered impaired when, based on current information or events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. For loans determined to be impaired, the allowance is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. When the ultimate collectibility of the impaired loan's principal is doubtful, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are first recorded as recoveries of any amounts previously charged-off and are then applied to interest income, to the extent that any interest has been foregone.

The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current and anticipated economic conditions, statutory examinations of the loan portfolio by regulatory agencies, delinquency information and management's internal review of the loan portfolio. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions previously used in making the evaluations. In addition, regulatory examiners may require the Bank to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

NOTES TO SUMMARY FINANCIAL STATEMENTS (continued)

Earnings Per Common Share

Basic and diluted earnings per common share have been computed by dividing net income available to common stockholders for each period by the weighted average number of shares of common stock outstanding during each period after retroactively adjusting for the 25% stock dividend paid in 2006. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options.

Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. As of December 31, 2008, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

U.S. Treasury Capital Purchase Program Preferred Stock

On December 23, 2008, the Bank issued 7,500 shares of non-cumulative perpetual preferred stock ("Series A"), to the U.S. Treasury for \$7,500,000. Additionally, the Bank issued 375 preferred stock warrants to the U.S. Treasury as a condition to its participation in the Capital Purchase Program (CPP). The warrants were exercised immediately upon the issuance of the Series A preferred stock, which resulted in the issuance of 375 shares of non-cumulative perpetual preferred stock ("Series B"). Proceeds from this sale of preferred stock are expected to be used for general corporate purposes, including supporting the continued, anticipated growth of the Bank. Both the Series A and Series B preferred stock is non-voting, other than having class voting rights on certain matters. Series A pays cumulative dividends quarterly at a rate of 5% per annum and Series B pays cumulative dividends quarterly at a rate of 9% per annum. The preferred shares are redeemable at the option of the Bank subject to regulatory approval. As a condition of the CPP, the Bank must obtain consent from the United States Department of the Treasury to repurchase its common stock or to increase its cash dividend on its common stock. Furthermore, the Bank has agreed to certain restrictions on executive compensation.

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CONFIDENTIAL - SECURITY INFORMATION

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the little bank Leadership

Executive Officers

Vincent R. Jones
President
Chief Executive Officer

Doyle M. Thigpen
Executive Vice President
Chief Financial Officer & Secretary

Board of Directors

R. Lee Burrows
Chairman of the Board, the little bank
Managing Partner of Four Corners
Capital, LLC, Director of Carolina
Finance

C. Dwight Howard
President, Carolina Greenhouses, Carolina
Soil Company, Howard Development, Inc.,
East Coast Modular, Inc., How Corp,
LLC, and Eastern Warehouses, LLC, and
Carolina Modular Schools, LLC.

Charles Felix Harvey
Chairman of the Board, Harvey
Enterprises & Affiliates

Vincent R. Jones
President and
Chief Executive Officer
the little bank

Cameron McKee
President, Tands Inc., Bojangles Franchisee
President, McKee & Associates, Inc.,
Management Company for the Franchise

David Weil
President
Weil Enterprises, Real Estate
Development & Management

Kelly Barnhill
Chairman & Owner
Hendrix-Barnhill Company

Marty Beams
President & Owner
W.A. Moore & Co.

James T. Hill
President & Co-Owner
Toll Hill Farms, Inc.

Oscar Greene, Jr.
Retired—formerly President
Electricon, Inc., President, AFF One, Inc.

the little bank
Trust
Mail Code: FCC61
PO Box 29522
Raleigh, NC 27626-0522

Common Stock
The little bank's common stock is
traded on the Over-the-Counter
Bulletin Board under the symbol LTLB.

Independent Auditors
Dixon Hughes PLLC
1003 Red Banks Road
Greenville, NC 27858

Financial Information

A complete 2008 Audited Financial Statement may be obtained by contacting the little bank. Please request by contacting Doyle M. Thigpen by mail at the little bank, 1011-A Red Banks Road, Greenville, NC 27858, or via email at www.thelittlebank.com—please remember to give your return address information.

Annual Shareholders Meeting

The annual meeting of shareholders of the little bank will be held on April 29, 2009 at 10:00 a.m. at the Hampton Inn, in Kinston, NC.



the little bank

We Want to Know You.

CORPORATE OFFICE

803 Carey Road
Kinston, NC 28501
Phone: 252-939-9990



BRANCH OFFICES

Kinston Branch

1101 W. Vernon Ave.
Kinston, NC 28501
252-939-3900
252-939-3888 (fax)

Jacksonville Branch

118 Western Blvd.
Jacksonville, NC 28546
910-353-8600
910-353-8612 (fax)

Goldsboro Branch

201 N. Center Street
Goldsboro, NC 27533
919-583-8989
919-583-8992 (fax)

Greenville Branch

1011-A Red Banks Rd.
Greenville, NC 27858
252-215-3030
252-215-0008 (fax)

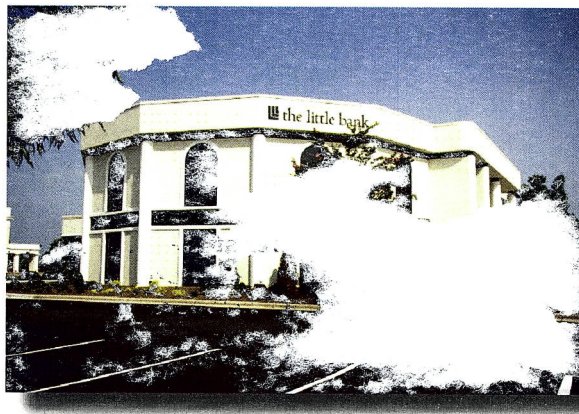
La Grange Branch

101 S. Caswell St.
La Grange, NC 28551
252-566-5600
252-566-4655 (fax)

New Bern Branch

580 McCarthy Blvd
New Bern, NC 28562
252-633-3585
252-633-3845 (fax)

www.thelittlebank.com



Each depositor insured to \$100,000



FEDERAL DEPOSIT INSURANCE CORPORATION



the little bank

2008 Audited Financial Statements

the little bank

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Financial Statements	
Balance Sheets	2
Statements of Operations.....	3
Statements of Changes in Stockholders' Equity.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements	7
Management and Bank Personnel	31
General Corporate Information	32



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
the little bank
Kinston, North Carolina

We have audited the accompanying balance sheets of **the little bank** (the "Bank") as of December 31, 2008 and 2007, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **the little bank** at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes PLLC

Greenville, North Carolina
April 3, 2009

the little bank**BALANCE SHEETS*****December 31, 2008 and 2007***

ASSETS	<u>2008</u>	<u>2007</u>
Cash and due from banks	\$ 3,211,821	\$ 4,429,731
Interest-earning deposits with banks	22,215,451	2,540,565
Federal funds sold	482,000	6,121,000
Certificates of deposit with banks	-	1,100,000
Investment securities available for sale (Note C)	38,562,804	33,038,579
Loans (Note D)	244,022,533	227,092,064
Allowance for loan losses	<u>(3,876,981)</u>	<u>(3,169,236)</u>
NET LOANS	240,145,552	223,922,828
Accrued interest receivable	1,421,995	1,694,821
Federal Home Loan Bank stock	2,038,200	1,674,500
Bank premises and equipment, net	2,745,168	2,607,645
Bank-owned life insurance	3,375,393	3,229,592
Other assets	<u>1,441,227</u>	<u>1,822,457</u>
TOTAL ASSETS	<u>\$ 315,639,611</u>	<u>\$ 282,181,718</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 248,866,398	\$ 230,173,226
Advances from the Federal Home Loan Bank	34,000,000	28,000,000
Accrued interest payable	973,604	1,061,324
Accrued expenses and other liabilities	<u>359,102</u>	<u>480,651</u>
TOTAL LIABILITIES	<u>284,199,104</u>	<u>259,715,201</u>
Commitments (Note D and K)		
Stockholders' Equity:		
Non-cumulative perpetual preferred stock (Series A), no par value, 7,500 shares authorized, issued and outstanding at December 31, 2008	7,043,075	-
Non-cumulative perpetual preferred stock (Series B), no par value, 375 shares authorized, issued and outstanding at December 31, 2008	452,397	-
Common stock, no par value, 24,000,000 shares authorized; 2,300,212 and 2,276,281 shares issued and outstanding at December 31, 2008 and 2007, respectively	20,209,605	20,002,399
Retained earnings	3,286,958	2,246,482
Accumulated other comprehensive income	<u>448,472</u>	<u>217,636</u>
TOTAL STOCKHOLDERS' EQUITY	<u>31,440,507</u>	<u>22,466,517</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 315,639,611</u>	<u>\$ 282,181,718</u>

See accompanying notes.

*the little bank***STATEMENTS OF OPERATIONS***Years Ended December 31, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
INTEREST INCOME		
Loans	\$ 15,465,875	\$ 16,554,429
Investment securities	1,640,900	1,519,666
Federal funds sold	50,567	228,429
Interest-bearing deposits with banks	<u>178,319</u>	<u>302,979</u>
TOTAL INTEREST INCOME	<u>17,335,661</u>	<u>18,605,503</u>
INTEREST EXPENSE		
Money market, NOW and savings deposits	878,562	1,343,677
Time deposits	6,934,678	7,680,613
Advances from the Federal Home Loan Bank	<u>1,625,422</u>	<u>801,236</u>
TOTAL INTEREST EXPENSE	<u>9,438,662</u>	<u>9,825,526</u>
NET INTEREST INCOME	7,896,999	8,779,977
PROVISION FOR LOAN LOSSES	<u>700,000</u>	<u>425,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>7,196,999</u>	<u>8,354,977</u>
NONINTEREST INCOME		
Service charges and fees on deposit accounts	604,868	541,470
Fees from presold mortgages	346,112	390,287
Impairment charge on non-marketable equity security	(200,000)	-
Other	<u>425,431</u>	<u>292,987</u>
TOTAL NONINTEREST INCOME	<u>1,176,411</u>	<u>1,224,744</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	3,786,594	3,653,636
Occupancy and equipment	639,457	613,913
Data processing	536,134	487,978
Marketing	115,754	116,453
Other (Note P)	<u>1,058,154</u>	<u>914,931</u>
TOTAL NONINTEREST EXPENSE	<u>6,136,093</u>	<u>5,786,911</u>
INCOME BEFORE INCOME TAXES	2,237,317	3,792,810
INCOME TAXES	<u>821,000</u>	<u>1,365,000</u>
NET INCOME	<u>1,416,317</u>	<u>2,427,810</u>
PREFERRED STOCK DIVIDENDS	<u>9,083</u>	<u>-</u>
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	<u>\$ 1,407,234</u>	<u>\$ 2,427,810</u>

See accompanying notes.

the little bank
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2008 and 2007

	Preferred stock Series A		Preferred stock Series B		Common stock		Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2006	-	\$ -	-	\$ -	2,268,305	\$ 19,893,753	\$ 160,114	\$ (79,484)	\$ 19,974,383
Comprehensive income:									
Net income	-	-	-	-	-	-	2,427,810	-	2,427,810
Other comprehensive income, net of taxes	-	-	-	-	-	-	-	297,120	297,120
Issuance of common stock	-	-	-	-	7,976	49,996	-	-	49,996
Stock compensation expense	-	-	-	-	-	58,650	-	-	58,650
Cash dividends paid, \$.15 per common share	-	-	-	-	-	-	(341,442)	-	(341,442)
Balance at December 31, 2007	-	-	-	-	2,276,281	20,002,399	2,246,482	217,636	22,466,517
Comprehensive income:									
Net income	-	-	-	-	-	-	1,416,317	-	1,416,317
Other comprehensive income, net of taxes	-	-	-	-	-	-	-	230,836	230,836
Issuance of common stock	-	-	-	-	23,931	150,004	-	-	150,004
Stock compensation expense	-	-	-	-	-	57,202	-	-	57,202
Issuance of preferred stock	7,500	7,495,472	375	375,000	-	-	-	-	7,870,472
(Discount) Premium on preferred stock	-	(452,397)	-	77,397	-	-	-	-	(375,000)
Cash dividends paid, \$.16 per common share	-	-	-	-	-	-	(366,758)	-	(366,758)
Dividends accrued, \$.05 per preferred share	-	-	-	-	-	-	-	-	-
Balance at December 31, 2008	7,500	\$ 7,043,075	375	\$ 452,397	2,300,212	\$ 20,209,605	\$ 3,286,958	\$ 448,472	\$ 31,440,507

See accompanying notes.

*the little bank***STATEMENTS OF CASH FLOWS***Years Ended December 31, 2008 and 2007*

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,416,317	\$ 2,427,810
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	270,889	289,572
Provision for loan losses	700,000	425,000
Deferred income taxes	(349,810)	(141,350)
Impairment charge on non-marketable equity security	200,000	-
Loss on sale of other real estate owned	-	9,123
Gain on sale of bank premises and equipment	(262)	-
Stock compensation expense	57,202	58,650
Income from bank owned life insurance	(145,801)	(123,900)
Change in assets and liabilities:		
Decrease (increase) in accrued interest receivable	272,826	(366,363)
Decrease (increase) in other assets	386,227	(162,778)
(Decrease) increase in accrued interest payable	(87,720)	386,128
Decrease in accrued expenses and other liabilities	(130,632)	(455,359)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,589,236</u>	<u>2,346,533</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in certificates of deposit with banks	1,100,000	(1,000,000)
Purchase of FHLB stock	(363,700)	(1,070,700)
Purchase of investment securities available for sale	(22,284,669)	(20,443,431)
Maturities and prepayments of investment securities available for sale	17,136,660	13,387,362
Net increase in loans	(16,922,724)	(45,730,597)
Proceeds from sales of other real estate owned	-	25,877
Proceeds from sales of bank premises and equipment	3,500	-
Purchases of bank premises and equipment	(412,217)	(194,220)
Investment in bank owned life insurance	-	(1,000,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(21,743,150)</u>	<u>(56,025,709)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from the Federal Home Loan Bank, net	6,000,000	23,000,000
Net increase in deposits	18,693,172	26,011,523
Cash dividends paid	(366,758)	(341,442)
Proceeds from issuance of preferred stock, net	7,495,472	-
Proceeds from common stock issuance	150,004	49,996
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>31,971,890</u>	<u>48,720,077</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,817,976	(4,959,099)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>13,091,296</u>	<u>18,050,395</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 25,909,272</u>	<u>\$ 13,091,296</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	<u>\$ 9,526,382</u>	<u>\$ 9,439,398</u>
Income taxes paid	<u>\$ 1,205,298</u>	<u>\$ 1,386,000</u>

See accompanying notes.

the little bank

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

SUPPLEMENTAL SCHEDULE OF NONCASH
INVESTMENT ACTIVITY

Unrealized holding gains on available-for-sale securities, net	\$ <u>230,836</u>	\$ <u>297,120</u>
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SUPPLEMENTAL SCHEDULE OF NONCASH
FINANCING ACTIVITY

Preferred stock dividends declared but not paid	\$ <u>9,083</u>	\$ <u>-</u>
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See accompanying notes.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE A - ORGANIZATION AND OPERATIONS

the little bank (the "Bank") was incorporated as a North Carolina chartered savings bank on September 16, 1998 and began operations on November 9, 1998. The Bank is headquartered in Kinston, North Carolina and has as its principal market area, Lenoir, Wayne, Onslow, Craven and Pitt Counties. The Bank operates under the laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Banking Commission. The Bank undergoes periodic examinations by those regulatory authorities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans.

Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash and due from banks, interest-earning deposits with banks and federal funds sold.

Investment Securities

Available-for-sale securities are reported at fair value and consist of bonds and notes not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses on available-for-sale securities are reported as a net amount in other comprehensive income, net of income taxes. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield over the lives of the related loans. The recognition of interest income is discontinued when, in management's opinion, the collection of all or a portion of interest becomes doubtful or the loan becomes ninety days delinquent. Loans are returned to accrual status when the factors indicating doubtful collectability cease to exist and the loan has performed in accordance with its terms for a demonstrated period of time. The past due status of loans is based on the contractual payment terms.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

A loan is considered impaired when, based on current information or events, it is probable that a borrower will be unable to pay all amounts due according to the contractual terms of the loan agreement. For loans determined to be impaired, the allowance is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. When the ultimate collectability of the impaired loan's principal is doubtful, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are first recorded as recoveries of any amounts previously charged-off and are then applied to interest income, to the extent that any interest has been foregone.

Allowance for Loan Losses

The provision for loan losses is based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gives consideration to current and anticipated economic conditions, statutory examinations of the loan portfolio by regulatory agencies, delinquency information and management's internal review of the loan portfolio. Loans are considered impaired when it is probable that all amounts due under the contractual terms of the loan will not be collected. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loss is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions previously used in making the evaluations. In addition, regulatory examiners may require the Bank to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Bank Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets which are forty years for buildings and three to ten years for furniture and equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Other Real Estate Owned

Other real estate owned is valued at the lower of the recorded investment in the loan or fair value less estimated cost to sell. The recorded investment is the sum of the outstanding principal loan balance and related accrued interest. Any excess of the recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are recorded as a valuation allowance with a corresponding charge to operations.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank Stock

As a requirement for membership, the Bank invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). This investment is carried at cost. Due to the redemption provisions of the FHLB, the Bank estimated that fair value equals cost and that this investment was not impaired.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Stock Compensation Plans

Effective January 1, 2006, the Bank adopted Statement of Financial Accounting Standards No. 123 (R), "Share-Based Payment," (SFAS No. 123R) which was issued by the Financial Accounting Standards Board (FASB) in December 2004. SFAS No. 123R revises SFAS No. 123 "Accounting for Stock Based Compensation," and supersedes APB No. 25, "Accounting for Stock Issued to Employees," (APB No. 25) and its related interpretations. SFAS No. 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123R also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. SFAS No. 123R also amends SFAS No. 95 "Statement of Cash Flows," to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Bank adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Under this application, the Bank is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Prior to the adoption of SFAS No. 123R, the Bank used the intrinsic value method as prescribed by APB No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Bank's common stock on the date of grant.

Earnings Per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per common share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options. Diluted earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common stock equivalents and other potentially dilutive securities using the treasury stock method.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Common Share (Continued)

The computation of basic and diluted earnings per common share is presented below:

	<u>2008</u>	<u>2007</u>
Basic Earnings per Common Share		
Net income	\$ 1,416,317	\$ 2,427,810
Preferred stock dividends	(9,083)	-
Net income available to common stockholders	<u>\$ 1,407,234</u>	<u>\$ 2,427,810</u>
Weighted-average common shares outstanding	2,284,040	2,274,358
Basic earnings per common shares	<u>\$ 0.62</u>	<u>\$ 1.07</u>
Diluted Earnings per Common Share		
Net income available to common stockholders	<u>\$ 1,407,234</u>	<u>\$ 2,427,810</u>
Weighted-average common shares outstanding	2,284,040	2,274,358
Dilutive effect of stock options	<u>17,729</u>	<u>44,901</u>
Weighted-average common shares outstanding adjusted for effect of dilutive securities	2,301,769	2,319,259
Diluted earnings per common shares	<u>\$ 0.61</u>	<u>\$ 1.05</u>

Comprehensive Income

The Bank reports as comprehensive income all changes in stockholders' equity during the year from sources other than stockholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Bank's only component of other comprehensive income is unrealized gains and losses on investment securities available for sale, net of income taxes.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Continued)

The components of other comprehensive income and related tax effects, all of which relate to investment securities available for sale, are as follows:

	<u>2008</u>	<u>2007</u>
Accumulated other comprehensive income (loss), beginning of year	\$ 217,636	\$ (79,484)
Unrealized losses arising during the year	375,649	483,515
Tax effect	<u>(144,813)</u>	<u>(186,395)</u>
Net of tax amount	<u>230,836</u>	<u>297,120</u>
Accumulated other comprehensive income, end of year	<u>\$ 448,472</u>	<u>\$ 217,636</u>

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Bank.

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which is a change in accounting for income taxes. FIN 48 is an interpretation of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the "more-likely-than-not" recognition threshold, the benefit of that position is not recognized in the financial statements. In accordance with FASB Staff Position No. FIN 48-3, "Effective Date of FASB for Certain Nonpublic Enterprises" ("FSP FIN 48-3"), the Bank has elected to defer application of the provisions of FIN 48 as of and for the year ended December 31, 2008. The Bank continues to account for uncertain tax positions in accordance with the principles of Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies," under which liabilities for uncertain tax positions are recognized in the financial statements when it becomes probable a liability has been incurred and the amount can be reasonably estimated. Unless the deferral is extended further, the Bank will be required to adopt the provisions of FIN 48 for the year ended December 31, 2009. The Bank does not anticipate that the adoption of FIN 48 will have a material impact on the financial statements.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In September 2006, the FASB ratified the consensus the Emerging Issues Task Force ("EITF") reached regarding EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4"), which provides accounting guidance for postretirement benefits related to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policies. The consensus concludes that an employer should recognize a liability for the postretirement benefit in accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FAS 106") or Accounting Principles Board Opinion No. 12, "Omnibus Opinion - 1967" ("APB 12"). In addition, the consensus states that an employer should also recognize an asset based on the substance of the arrangement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 became effective beginning January 1, 2008 and did not have a material effect on the Bank's financial position, results of operations or cash flows. In February 2008, Financial Accounting Standards Board Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157," was issued that delayed the application of SFAS No. 157 for non-financial assets and non-financial liabilities, until January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option of Financial Assets and Financial Liabilities" ("SFAS No. 159"), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS No. 159 became effective beginning January 1, 2008. The Bank elected not to measure any eligible items using the fair value option in accordance with SFAS No. 159 and therefore, SFAS No. 159 did not have an impact on the Bank's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS 141(R)") which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The most significant changes affecting how the Bank will account for business combinations under this Statement include: the acquisition date will be the date the acquirer obtains control; all identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition-related restructuring costs that do not meet the criteria in SFAS

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by an acquirer. Additionally, FAS No 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. FAS 141(R) is effective for acquisitions by the Bank taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Bank will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("FAS 161"). FAS 161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, and early adoption is permitted. The adoption of FAS 161 is not expected to have an impact to the financial statements.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"). FSP 157-3 clarifies the application of FAS 157 in a market that is not active. The FSP is intended to address the following application issues: (a) how the reporting entity's own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist; (b) how available observable inputs in a market that is not active should be considered when measuring fair value; and (c) how the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. FSP 157-3 is effective on issuance, including prior periods for which financial statements have not been issued. The Bank's adoption of FSP 157-3 did not have material implications to the financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Bank's financial position, results of operations and cash flows.

From time to time, the FASB issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the financial statements of the Bank and monitors the status of changes to and proposed effective dates of exposure drafts.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE C - INVESTMENT SECURITIES

The following is a summary of the securities portfolios by major classification:

	December 31, 2008			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Securities available-for-sale:				
U.S. government agencies	\$ 32,000,000	\$ 556,740	\$ -	\$ 32,556,740
Mortgage-backed securities	<u>5,832,988</u>	<u>178,555</u>	<u>5,479</u>	<u>6,006,064</u>
	<u>\$ 37,832,988</u>	<u>\$ 735,295</u>	<u>\$ 5,479</u>	<u>\$ 38,562,804</u>
	December 31, 2007			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Securities available-for-sale:				
U.S. government agencies	\$ 27,000,000	\$ 304,270	\$ -	\$ 27,304,270
Mortgage-backed securities	<u>5,684,412</u>	<u>74,122</u>	<u>24,225</u>	<u>5,734,309</u>
	<u>\$ 32,684,412</u>	<u>\$ 378,392</u>	<u>\$ 24,225</u>	<u>\$ 33,038,579</u>

There were no sales of available-for-sale securities during the years ended December 31, 2008 or 2007.

The amortized cost and fair value of securities available-for-sale at December 31, 2008 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	
	Amortized cost	Fair value
Due within one year	\$ 3,519,584	\$ 3,579,494
Due after one year through five years	29,637,986	30,133,793
Due after five years through ten years	2,890,749	3,017,650
Due after ten years	<u>1,784,669</u>	<u>1,831,867</u>
	<u>\$ 37,832,988</u>	<u>\$ 38,562,804</u>

For the purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal payments.

Securities with a carrying value of \$6.2 million at December 31, 2008 were pledged as collateral on public deposits.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE C - INVESTMENT SECURITIES (Continued)

The following tables show gross unrealized losses and fair values of investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2008 and 2007. At December 31, 2008, the unrealized losses relate to five mortgage-backed securities, all of which had continuous unrealized losses for twelve months or more. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased. Since none of the unrealized losses relate to the marketability of the securities or the issuer's ability to honor redemption obligations, and considering that management has the intent and ability to hold these investments until recovery, none of the securities are deemed to be other than temporarily impaired. Should the Bank decide in the future to sell securities in an unrealized loss position, or determine that impairment of any securities is other than temporary, irrespective of a decision to sell, an impairment loss would be recognized in the period such determination is made.

	December 31, 2008					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(Amounts in thousands)					
Securities available for sale:						
Mortgage-backed securities	\$ -	\$ -	\$ 794	\$ 5	\$ 794	\$ 5
Total temporarily impaired securities	\$ -	\$ -	\$ 794	\$ 5	\$ 794	\$ 5

	December 31, 2007					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(Amounts in thousands)					
Securities available for sale:						
Mortgage-backed securities	\$ -	\$ -	\$ 1,626	\$ 24	\$ 1,626	\$ 24
Total temporarily impaired securities	\$ -	\$ -	\$ 1,626	\$ 24	\$ 1,626	\$ 24

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE D - LOANS

Following is a summary of loans at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Real estate - mortgage loans	\$ 18,471,062	\$ 18,699,242
Commercial and industrial loans	198,252,840	187,614,229
Home equity loans	22,959,522	18,514,894
Consumer loans	<u>13,509,117</u>	<u>14,962,258</u>
Subtotal	253,192,541	239,790,623
Allowance for loan losses	(3,876,981)	(3,169,236)
Net deferred loan fees	(271,220)	(264,467)
Construction loans in process	<u>(8,898,788)</u>	<u>(12,434,092)</u>
Total	<u>\$ 240,145,552</u>	<u>\$ 223,922,828</u>

Loans are primarily made in eastern North Carolina, principally Lenoir, Wayne, Onslow, Craven and Pitt Counties. Real estate loans can be affected by the condition of the local real estate market. Loans can be further affected by the local economic conditions.

There were no restructured loans during 2008 or 2007. The Bank had approximately \$2,899,000 and \$913,000 in non-accrual loans, all of which are considered to be impaired at December 31, 2008 and 2007, respectively. During the years ended December 31, 2008 and 2007, the Bank recognized interest income from impaired loans of approximately \$145,000 and \$36,000, respectively. The interest income foregone for loans on nonaccrual status for 2008 and 2007 was approximately \$75,000 and \$65,000, respectively.

The average recorded investment in impaired loans during 2008 and 2007 was \$659,620 and \$553,000, respectively. At December 31, 2008 and 2007, the recorded investment in impaired loans requiring a valuation allowance were \$2,832,189 and \$130,000, respectively, with a corresponding valuation allowance of \$396,000 and \$20,000, respectively. No valuation allowance for impaired loans of \$670,146 and 783,000 at December 31, 2008 and 2007, respectively, were considered necessary.

The Bank has granted loans to certain directors and executive officers and their related interests. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers and, in management's opinion, do not involve more than the normal risk of collectability. All loans to directors and executive officers or their interests are submitted to the Board of Directors for approval. A summary of loans to directors, executive officers and their related interests follows:

Balance at December 31, 2007	\$ 3,102,839
Disbursements during the year	8,693,216
Collections during the year	<u>(6,889,901)</u>
Balance at December 31, 2008	<u>\$ 4,906,154</u>

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE D – LOANS (Continued)

At December 31, 2008, the Bank had pre-approved but unused lines of credit totaling \$7.6 million to executive officers, directors and their related interests.

An analysis of the allowance for loan losses follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 3,169,236	\$ 2,892,562
Provision charged to operations	700,000	425,000
Charge-offs	(100,156)	(168,354)
Recoveries	<u>107,901</u>	<u>20,028</u>
Net recoveries (charge-offs)	<u>7,745</u>	<u>(148,326)</u>
Balance at end of year	<u>\$ 3,876,981</u>	<u>\$ 3,169,236</u>

NOTE E - BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land	\$ 516,000	\$ 516,000
Buildings	1,562,255	1,562,255
Leasehold improvements	719,806	388,071
Furniture and equipment	<u>1,426,276</u>	<u>1,390,191</u>
	4,224,337	3,856,517
Accumulated depreciation	<u>(1,479,169)</u>	<u>(1,248,872)</u>
Total	<u>\$ 2,745,168</u>	<u>\$ 2,607,645</u>

Depreciation amounting to approximately \$271,500 for the year ended December 31, 2008 and \$292,300 for the year ended December 31, 2007 is included in occupancy and equipment expense.

The Bank leases a branch facility in Kinston under a noncancelable operating lease with a director. The initial term of the lease expired October 31, 2008 at which time it was renewed for an additional five year term, with annual rental payments of \$41,325. It also provides the Bank the right to renew for an additional five-year term at the expiration of the current term. The Bank also leases a branch facility in LaGrange under a noncancelable operating lease with the same director. The lease is for a five-year term expiring June 30, 2012. The lease includes an option to renew for an additional five-year term at the expiration of the current term.

The Bank leases branch facilities in Goldsboro, Jacksonville, and New Bern under noncancelable operating leases with unrelated parties. These leases range from three to ten-year terms with the Jacksonville lease expiring November 1, 2017, the Goldsboro lease expiring March 31, 2010, and the

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE E - BANK PREMISES AND EQUIPMENT (Continued)

New Bern lease expiring on December 10, 2010. Annual rental payments are \$29,904, \$29,991, and \$18,000, respectively. Each lease includes an option to renew for multiple terms at the expiration of the initial term. The initial term for the Jacksonville lease expired October 31, 2007, at which time the Bank exercised its option and renewed the lease for another ten-year term.

A summary of the minimum future rental payments under the leases described above is as follows at December 31, 2008:

<u>Period</u>	<u>Amount</u>
2009	\$ 131,400
2010	108,311
2011	83,409
2012	77,817
2013	67,329
Thereafter	<u>126,086</u>
	<u>\$ 594,352</u>

Total rent expense under operating leases was approximately \$128,000 and \$107,000 for the years ended December 31, 2008 and 2007, respectively, and is included in occupancy and equipment expense.

NOTE F - DEPOSITS

Deposits consist of the following:

	<u>2008</u>	<u>2007</u>
Demand	\$ 45,130,463	\$ 41,899,011
Savings	1,288,985	1,084,560
Money market and NOW	30,897,133	23,801,161
Time	<u>171,549,817</u>	<u>163,388,494</u>
Total	<u>\$ 248,866,398</u>	<u>\$230,173,226</u>

Time deposits in denominations of \$100,000 or more were \$93.7 million and \$92.0 million at December 31, 2008, and 2007, respectively. Interest expense on such deposits aggregated \$3.8 million in 2008 and \$3.8 million in 2007.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE F – DEPOSITS (Continued)

At December 31, 2008, the scheduled maturities of certificates of deposit are as follows:

	<u>Less than \$100,000</u>	<u>\$100,000 or more</u>	<u>Total</u>
2009	\$ 73,161,878	\$ 82,050,956	\$ 155,212,834
2010	1,857,845	8,062,492	9,920,337
2011	884,730	496,684	1,381,414
2012	826,104	737,583	1,563,687
2013	<u>1,116,737</u>	<u>2,354,808</u>	<u>3,471,545</u>
Total	<u>\$ 77,847,294</u>	<u>\$ 93,702,523</u>	<u>\$ 171,549,817</u>

NOTE G - ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank has available a line of credit totaling \$78.9 million, representing 25% of total assets, with the Federal Home Loan Bank of Atlanta (“FHLB”). At December 31, 2008, advances under this line amounted to \$34.0 million, with interest rates ranging from 0.59% to 5.32%. At December 31, 2007, advances under this line amounted to \$28.0 million, with interest rates ranging from 4.19% to 5.58%.

At December 31, 2008, the scheduled maturities of Federal Home Loan Bank Advances are as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>
January 12, 2009	5.32%	\$ 2,000,000
January 30, 2009	2.69%	2,000,000
March 25, 2009	4.75%	3,000,000
March 27, 2009	5.06%	3,000,000
April 28, 2009	2.97%	4,000,000
May 11, 2009	2.70%	5,000,000
June 24, 2009	3.29%	3,000,000
August 26, 2009	0.59%	5,000,000
October 19, 2009	2.91%	4,000,000
December 14, 2009	4.19%	<u>3,000,000</u>
		<u>\$ 34,000,000</u>

All of the Bank’s outstanding FHLB advances are at fixed interest rates with the exception of the advance maturing on August 26, 2009 which is at a variable rate. The FHLB advances are not callable by the FHLB. The Bank’s advances with the FHLB are secured by its qualifying first residential and commercial mortgage and home equity loans with principal balances of \$52.2 million at December 31, 2008. At December 31, 2008, the line of credit with the FHLB was not secured by any pledged investment securities.

The Bank also has an available line of credit totaling \$5.5 million from a correspondent bank as of December 31, 2008.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE H – NON-CUMULATIVE PERPETUAL PREFERRED STOCK

On December 23, 2008, the Bank issued 7,500 shares of non-cumulative perpetual preferred stock (“Series A”), to the U.S Treasury for \$7,500,000. Additionally, the Bank issued 375 preferred stock warrants to the U.S Treasury as a condition to its participation in the Capital Purchase Program (CPP). The warrants were exercised immediately upon the issuance of the Series A preferred stock, which resulted in the issuance of 375 shares of non-cumulative perpetual preferred stock (“Series B”). Proceeds from this sale of preferred stock are expected to be used for general corporate purposes, including supporting the continued, anticipated growth of the Bank. Both the Series A and Series B preferred stock is non-voting, other than having class voting rights on certain matters. Series A pays dividends quarterly at a rate of 5% per annum and Series B pays dividends quarterly at a rate of 9% per annum. The preferred shares are redeemable at the option of the Bank subject to regulatory approval.

The Series B preferred shares have a fair value of \$452,397 using a discount rate of 14%. As a result, \$77,397 has been recorded as a premium on the Series B preferred stock and will be amortized as an increase in net income available to common stockholders over the next five years at approximately \$14,000 per year. Correspondingly, a discount of approximately \$452,397 was recorded on the Series A preferred stock and will be accreted over the next five years at approximately \$19,000 per year.

As presented in the accompanying financial statements, \$7,043,075 was assigned to the Series A preferred stock and \$452,397 was assigned to the Series B preferred stock. As a condition of the CPP, the Bank must obtain consent from the United States Department of the Treasury to repurchase its common stock or to increase its cash dividend on its common stock. Furthermore, the Bank has agreed to certain restrictions on executive compensation. If the Bank suspends the payment of dividends on the Series A or Series B preferred stock, a seat on the Bank’s board of directors could be obtained by the preferred stockholders.

NOTE I - INCOME TAXES

The significant components of the provision for income taxes for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Current tax provision		
Federal	\$ 1,015,776	\$ 1,346,390
State	<u>77,926</u>	<u>159,960</u>
	<u>1,093,702</u>	<u>1,506,350</u>
Deferred tax benefit		
Federal	(288,307)	(117,155)
State	<u>(61,503)</u>	<u>(24,195)</u>
	<u>(349,810)</u>	<u>(141,350)</u>
Provision for income tax expense before adjustment for deferred tax asset valuation allowance	743,892	1,365,000
Increase in valuation allowance	<u>77,108</u>	<u>-</u>
Net provision for income taxes	<u>\$ 821,000</u>	<u>\$ 1,365,000</u>

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE I - INCOME TAXES (Continued)

The difference between the provisions for income taxes and the amounts determined by applying the statutory federal income tax rate of 34% to income before income taxes is summarized below:

	<u>2008</u>	<u>2007</u>
Expense computed at statutory rate of 34%	\$ 760,688	\$ 1,289,555
Effect of state income taxes	10,839	89,605
Bank-owned life insurance	(49,572)	(42,126)
Stock based compensation expense	19,449	19,941
Increase to deferred tax asset valuation allowance	77,108	-
Other	2,488	8,025
	<u>\$ 821,000</u>	<u>\$ 1,365,000</u>

Significant components of deferred taxes at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,391,934	\$ 1,122,056
Premises and equipment	22,681	-
Non-accrual interest	4,178	-
Other than temporary impairment	77,108	-
Total deferred tax assets	1,495,901	1,122,056
Less valuation allowance	(77,108)	-
Net deferred tax assets	<u>1,418,793</u>	<u>1,122,056</u>
Deferred tax liabilities:		
Premises and equipment	-	21,773
Prepaid expenses	(14,933)	(12,671)
Unrealized gains on available for sale securities	(281,344)	(136,531)
Total deferred tax liabilities	(296,277)	(127,429)
Net recorded deferred tax asset	<u>\$ 1,122,516</u>	<u>\$ 994,627</u>

It is management's opinion that realization of the net deferred tax asset is more likely than not based on the Bank's history of taxable income and estimates of future taxable income. The valuation allowance of \$77,108 relates to a \$200,000 capital loss carryover which arose in 2008.

NOTE J - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE J - REGULATORY MATTERS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum amounts and ratios, as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

A summary of the Bank's actual capital components, those required for capital adequacy and those to be considered well capitalized under prompt corrective action provisions at December 31, 2008 and 2007, follows:

	<u>Actual</u>		<u>Minimum for capital adequacy purposes</u>		<u>Minimum to be well capitalized under prompt corrective action provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2008:						
Total Capital (to Risk-Weighted Assets)	\$ 34,115	13.70%	\$ 19,924	8.0%	\$ 24,905	10.0%
Tier I Capital (to Risk-Weighted Assets)	30,992	12.44%	9,962	4.0%	14,943	6.0%
Tier I Capital (to Average Assets)	30,992	9.77%	12,685	4.0%	15,857	5.0%
As of December 31, 2007:						
Total Capital (to Risk-Weighted Assets)	\$ 25,131	10.92%	\$ 18,419	8.0%	\$ 23,024	10.0%
Tier I Capital (to Risk-Weighted Assets)	22,249	9.66%	9,210	4.0%	13,814	6.0%
Tier I Capital (to Average Assets)	22,249	7.96%	11,177	4.0%	13,971	5.0%

NOTE K - OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE K - OFF-BALANCE SHEET RISK (Continued)

requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

A summary of the contract amount of the Bank's exposure to off-balance sheet risk as of December 31, 2008 is as follows:

Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit	\$ 5.3 million
Undisbursed lines of credit	34.7 million
Undisbursed construction loans	8.9 million

NOTE L - CONCENTRATIONS OF CREDIT

All of the Bank's loans and commitments to extend credit and commercial and standby letters of credit have been granted to customers in the Bank's market area. Substantially all such customers are depositors of the Bank. The concentrations by type of loan are set forth in Note D. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of the regulatory loan-to-one-borrower limit.

NOTE M - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments include cash and due from banks, interest-earning deposits with banks, federal funds sold, certificates of deposit with banks, investment securities, loans, accrued interest receivable, stock in the Federal Home Loan Bank of Atlanta, bank-owned life insurance, deposit accounts, accrued interest payable and advances from the Federal Home Loan Bank. Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks, Interest-Earning Deposits with Banks and Federal Funds Sold

The carrying amounts for cash and due from banks, interest-earning deposits with banks and federal funds sold approximate fair value because of the short maturities of those instruments.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE M - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Certificates of Deposit with Banks

The fair value of certificates of deposit with banks is estimated using rates currently offered for instruments of similar maturity.

Investment Securities

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest Receivable

The carrying amount of accrued interest receivable is considered to approximate fair value.

Stock in Federal Home Loan Bank of Atlanta

The carrying value of the Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Bank-Owned Life Insurance

The carrying value of life insurance approximates fair value because this investment is carried at cash surrender value, as determined by the insurer.

Deposits

The fair value of demand, savings, money market and NOW accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting expected cash flows using the rates currently offered for instruments of similar remaining maturities.

Accrued Interest Payable

The carrying value of accrued interest payable is considered to approximate fair value.

Advances from Federal Home Loan Bank

The fair value of these advances is based upon the discounted present value of expected cash flows using current rates at which borrowings of similar maturity could be obtained.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE M - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk discussed in Note K it is not practicable to estimate the fair value of future financing commitments. The fair value of such commitments is insignificant because the underlying committed interest rates approximate market rates.

The carrying amounts and estimated fair values of the Bank's financial instruments, none of which are held for trading purposes, are as follows at December 31, 2008 and 2007:

	2008		2007	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(Dollars in thousands)			
Financial assets:				
Cash and due from banks	\$ 3,212	\$ 3,212	\$ 4,430	\$ 4,430
Interest-earning deposits with banks	22,215	22,215	2,541	2,541
Federal funds sold	482	482	6,121	6,121
Certificates of deposit with banks	-	-	1,100	1,100
Investment securities available for sale	38,563	38,563	33,039	33,039
Loans	240,146	239,676	223,923	224,059
Accrued interest receivable	1,422	1,422	1,695	1,695
Stock in the Federal Home Loan Bank of Atlanta	2,038	2,038	1,675	1,675
Bank-owned life insurance	3,375	3,375	3,230	3,230
Financial liabilities:				
Deposits	248,866	249,870	230,173	230,473
Advances from the Federal Home Loan Bank	34,000	34,346	28,000	28,083
Accrued interest payable	974	974	1,061	1,061

NOTE N - FAIR VALUE MEASUREMENTS

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE N – FAIR VALUE MEASUREMENTS (Continued)

should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Fair Value Hierarchy

Under SFAS 157, the Bank groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Bank adopted SFAS 157 on January 1, 2008 with no material impact on the financial statements. The Bank utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

Recurring Basis Measurements

Fair values of assets and liabilities measured on a recurring basis at December 31, 2008 are as follows:

Description	Fair Value 12/31/2008	Fair Value Measurements at December 31, 2008		
		(Level 1)	(Level 2)	(Level 3)
Investment securities available for sale	\$ 38,562,804	\$ -	\$ 38,562,804	\$ -

There were no realized gains or losses included in earnings during 2008 and 2007. There were no unrealized gains or losses included in earnings during 2008 and 2007.

In accordance with the provision of SFAS 115, a non-marketable equity security with a previous carrying value of \$200,000 was determined to be other than temporarily impaired during 2008. Accordingly, the Bank recorded an impairment charge of \$200,000 for this investment which is included on the accompanying statement of operation as a reduction of non-interest income.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE N – FAIR VALUE MEASUREMENTS (Continued)

The valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis are as follows:

Investment Securities Available for Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted and money prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 2 securities include mortgage-backed securities issued by government sponsored entities and US Government agency securities.

Non-Recurring Basis Measurements

Certain other financial assets are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Fair values of assets and liabilities measured on a nonrecurring basis at December 31, 2008 are as follows:

Description	Fair Value 12/31/2008	Fair Value Measurements at December 31, 2008		
		(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ 2,436,189	\$ -	\$ -	\$ 2,436,189

In accordance with the provisions of SFAS 114, impaired loans with a carrying amount of \$2,832,189 were written down to their fair value of \$2,436,189, resulting in an impairment charge of \$396,000, which was included in earnings for the year.

The valuation methodologies used for assets and liabilities recorded at fair value on a nonrecurring basis are as follows:

Loans

The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, "Accounting by Creditors for Impairment of a Loan," ("SFAS 114"). The fair value of impaired loans is estimated using one of several methods, including collateral value, market price and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2008, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE O - EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Retirement Plan

The Bank has a 401(k) retirement plan that covers all eligible employees. The Bank matches 100% of employee contributions on the first 3% of each employee's covered compensation and 50% of employee contributions on the next 2% of each employee's covered compensation. Matching contributions are funded when accrued. Matching expenses totaled approximately \$94,000 and \$91,000 for the years ended December 31, 2008 and 2007, respectively.

Stock Option Plan

During 1999 the Bank adopted, with shareholder approval, an Employee Stock Option Plan (the "Employee Plan"). During 2004 the Bank adopted, with shareholder approval, a Director Nonstatutory Stock Option Plan (the "Director Plan"). Certain of the options granted under the Employee Plan vested immediately at the time of grant, with the remainder vesting over five to six years. None of the options in the Director Plan had been granted as of December 31, 2008. All unexercised options expire ten years after the date of grant.

Stock based compensation expense charged to income was approximately \$57,000 and \$59,000 for the year ended December 31, 2008 and 2007, respectively. No income tax benefit was recognized for share-based compensation, as the Bank does not have any outstanding nonqualified stock options.

A summary of the Bank's option plans as of and for the years ended December 31, 2008 and 2007 is as follows:

	Outstanding Options			
	Shares Available for Future Grants	Number Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
At December 31, 2007	59,306	118,601	\$ 9.96	
Options granted	-	-	-	
Options exercised	-	(23,931)	6.27	
Options forfeited	-	-	-	
At December 31, 2008	<u>59,306</u>	<u>94,670</u>	<u>\$ 10.90</u>	<u>\$ 175,513</u>
Options exercisable at December 31, 2008		<u>69,936</u>	<u>\$ 9.13</u>	<u>\$ 253,270</u>

The aggregated intrinsic value of options outstanding and options exercisable at December 31, 2007 was \$988,974 and \$893,549, respectively. The total intrinsic value of options exercised during the year ended December 31, 2008 and 2007 was \$155,073 and \$95,951, respectively.

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE O- EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Stock Option Plan (Continued)

The following table summarizes information about the stock options outstanding at December 31, 2008:

Exercise Price	Options Outstanding		Options Exercisable	
	Number Outstanding December 31, 2008	Weighted-Average Remaining Contractual Life (Years)	Number Exercisable December 31, 2008	Weighted-Average Exercise Price
\$6.00-\$7.00	23,930	2.33	23,930	\$ 6.27
\$7.01-\$8.00	21,705	3.25	21,705	7.60
\$10.00-\$11.00	12,797	6.25	7,678	10.95
\$13.00-\$14.00	23,438	7.00	14,063	13.20
\$20.00-\$21.00	12,800	8.08	2,560	21.00
	<u>94,670</u>	<u>5.00</u>	<u>69,936</u>	<u>\$ 9.13</u>

The weighted average fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average estimated fair values of stock option grants and the assumptions that were used in calculating such fair values were based on estimates at the date of grant as follows:

Weighted average fair value of options granted during the year	<u>2007</u>
	\$ 8.93
Assumptions:	
Average risk free interest rate	4.99%
Average expected volatility	35.81%
Expected dividend rate	0.97%
Expected life in years	7.00

No options were granted during the year ended December 31, 2008.

Anticipated total unrecognized compensation costs related to outstanding non-vested stock options will be recognized over the following periods (dollars in thousands):

2009	\$ 57
2010	49
2011	23
2012	2
Total	<u>\$ 131</u>

the little bank

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE O - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Stock Option Plan (Continued)

A summary of the status of the Bank's non-vested stock options as of December 31, 2008 and 2007, and changes during the year then ended is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested December 31, 2006	33,329	\$ 4.38
Granted	12,800	8.93
Vested	(11,588)	3.71
Forfeited	-	-
	<u>-</u>	<u>-</u>
Non-vested December 31, 2007	34,541	6.29
Granted	-	-
Vested	(9,807)	5.83
Forfeited	-	-
	<u>-</u>	<u>-</u>
Non-vested December 31, 2008	<u>24,734</u>	<u>\$ 6.47</u>

The total fair value of shares that vested during the year ended December 31, 2008 and 2007 is approximately \$57,000 and \$43,000, respectively.

Employment Contracts

The Bank has entered into employment agreements with certain of its executive officers to ensure a stable and competent management base. The agreements provide for benefits as enumerated in the contracts and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officers' rights to receive certain vested rights, including compensation. In the event of a change in control of the Bank and in certain other events, as defined in the agreements, the Bank or any successor to the Bank will be bound to the terms of the contracts.

NOTE P - OTHER NONINTEREST EXPENSE

The major components of other noninterest expense for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Professional services	\$ 201,230	\$ 181,450
Office supplies	144,351	119,304
Postage and courier	93,884	85,733
Telephone	106,867	96,597
Other	<u>511,822</u>	<u>431,847</u>
Total	<u>\$ 1,058,154</u>	<u>\$ 914,931</u>

the little bank
MANAGEMENT AND BANK PERSONNEL

BOARD OF DIRECTORS

KELLY BARNHILL, SR.

JAMES T. HILL, JR.

MARTY BEAM

DWIGHT HOWARD

ROBERT LEE BURROWS*

VINCENT ROBERT JONES

OSCAR GREENE, JR.

CAMERON MCRAE

CHARLES FELIX HARVEY

DAVID WEIL

*Chairman

OFFICERS AND MANAGEMENT

VINCENT ROBERT JONES

*President/
Chief Executive Officer*

DOYLE M. THIGPEN
*Executive Vice President/
Chief Financial Officer/
Corporate Secretary*

SUSAN W. BARRETT

*Senior Vice President/
Operations Manager*

ROY J. PARKER, III
*Senior Vice President/
Goldsboro City Executive*

CHRISTOPHER MONCOURTOIS

*Senior Vice President/
Jacksonville City Executive*

J. STEPHEN WOOLARD, JR.

*Vice President/
New Bern Market Manager*

WALTER S. NEWTON, II

*Senior Vice President/
Kinston City Executive*

PEGGY CHRISTOPHER
*Senior Vice President/
Greenville City Executive*

VIVIAN C. SUTTON

*Vice President/
LaGrange City Executive*

ALYSON FAULCONER
*Senior Vice President
Greenville Lending Manager*

the little bank
GENERAL CORPORATE INFORMATION

Office Locations

Corporate Office

804 Carey Road
Post Office Box 279
Kinston, NC 28501-0279
(252) 939-9990 Telephone
(252) 939-1255 Facsimile

Kinston Location

1101 West Vernon Avenue
Post Office Box 279
Kinston, NC 28501-0279
(252) 939-3900

Goldsboro Location

201 N. Center Street
Goldsboro, NC 27530
(919) 583-8989

LaGrange Location

101 South Caswell Street
LaGrange, NC 28551
(252) 566-5600

Jacksonville Location

118 Western Boulevard
Jacksonville, NC 28546
(910) 353-8600

New Bern Location

580 McCarthy Boulevard
New Bern, NC 28562
(252) 633-3585

Greenville Location

1011 Red Banks Road
Greenville, NC 27858
(252) 215-3030

Independent Auditors

Dixon Hughes PLLC
1003 Red Banks Road
Greenville, NC 27858

Stock Transfer Agent

First-Citizens Bank & Trust Company
Post Office Box 29522
Raleigh, NC 27626-0522
(877) 685-0576

Regulatory and Securities Counsel

Brooks, Pierce, McLendon,
Humphrey & Leonard, L.L.P.
2000 Renaissance Plaza
230 North Elm Street
Post Office Box 26000
Greensboro, NC 27420

Market for Common Stock

the little bank's common stock is traded on the OTC Bulletin Board. It is traded under the symbol LTLB. There are approximately 231 shareholders of record.

Annual Shareholders' Meeting

The annual meeting of the shareholders of the Bank will be held at 10:00 a.m. April 29, 2009 at the Hampton Inn on Highway 258 South, Kinston, NC.

These audited financial statements serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

the little bank, Inc.

Post Office Box 279
1101 West Vernon Avenue
Kinston, North Carolina 28501
Telephone: (252) 939-9990

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS To Be Held on April 29, 2009

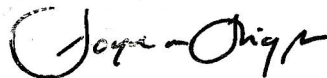
NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "Meeting") of the little bank, Inc. (the "Bank") will be held on April 29, 2009, at 10:00 a.m., at the Hampton Inn, located at 1382 Hwy 258 South, Kinston, North Carolina.

The Meeting is for the purpose of voting upon the following matters:

1. To elect the persons to serve as directors of the Bank until the 2012 Annual Meeting of Stockholders or until their successors qualify;
2. To ratify the selection of Dixon Hughes PLLC as the independent auditor for the Bank for the fiscal year ending December 31, 2009;
3. To consider and approve the following advisory (non-binding) proposal:
"Resolved, that the stockholders approve the overall executive compensation programs, policies, and procedures employed by the Bank, as described in the section headed Management Compensation, and the tabular disclosure regarding executive officer compensation (together with the accompanying narrative disclosure) in this Proxy Statement";
4. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof. The Board of Directors is not aware of any other business to be considered at the Annual Meeting.

The Board of Directors has established March 20, 2009, as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting and at any adjournments thereof. In the event there are not sufficient shares present in person or by proxy to constitute a quorum at the time of the Meeting, the Meeting may be adjourned in order to permit further solicitation of proxies by the Bank.

By Order of the Board of Directors



Doyle M. Thigpen
Secretary

Kinston, North Carolina
March 26, 2009

A form of proxy is enclosed to enable you to vote your shares at the Meeting. A return envelope, which requires no postage, if mailed in the

to vote your shares at the Meeting. You are urged, regardless of the size of your holding, to sign and return the enclosed proxy card. A return envelope, which requires no postage, is enclosed for your convenience.

the little bank, Inc.

PROXY STATEMENT

**2009 Annual Meeting of Stockholders
April 29, 2009**

SOLICITATION, VOTING AND REVOCABILITY OF PROXIES

General

This Proxy Statement is being furnished to stockholders of the little bank, Inc. (the "Bank") in connection with the solicitation by the board of directors of the Bank (the "Board of Directors") of proxies to be used at the Annual Meeting of Stockholders (the "Meeting") to be held on April 29, 2009, at 10:00 o'clock a.m., Eastern Time, at the Hampton Inn, located at 1382 Hwy 258 South, Kinston, North Carolina, and at any adjournments thereof.

Other than the matters listed on the attached Notice of 2009 Annual Meeting of Stockholders, the Board of Directors knows of no matters that will be presented for consideration at the Meeting. Execution of a proxy, however, confers on the designated proxyholders discretionary authority to vote the shares represented thereby in accordance with their best judgment on such other business, if any, that may properly come before the Meeting or any adjournments thereof.

Revocability of Proxy

A proxy may be revoked at any time prior to its exercise by the filing of a written notice of revocation with the Secretary of the Bank, by delivering to the Bank a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. However, if you are a stockholder whose shares are not registered in your own name, you will need appropriate documentation from your recordholder to vote personally at the Meeting.

Solicitation

The Bank will pay the cost of solicitation of proxies. Directors, officers and regular employees of the Bank, may, without additional compensation, solicit proxies personally or by telephone. The Bank will also request persons, firms and corporations holding shares in their names, or in the names of their nominees, which are beneficially owned by others to send proxy materials to, and obtain proxies from, such beneficial owners and will reimburse such holders, upon request, for their reasonable out-of-pocket expenses in doing so.

Voting Securities and Vote Required for Approval

Regardless of the number of shares of the Bank's common stock (the "Common Stock") owned, it is important that stockholders be represented by proxy or be present in person at the Annual Meeting. Stockholders are requested to vote by completing the enclosed form of proxy and returning it signed and dated in the enclosed postage-paid envelope. Any stockholder may vote for, against, or abstain from voting on any matter to come before the Annual Meeting. If the enclosed proxy is properly completed, signed, dated and returned, and not revoked, it will be voted in accordance with the instructions therein. If no instructions are given, the proxy will be voted **FOR** the nominees for election to the Board of Directors named in this Proxy Statement, **FOR** the ratification of Dixon Hughes PLLC as the Bank's independent auditor for the fiscal year ending December 31, 2009, and **FOR** the advisory "Say-on-Pay" proposal, each described in more detail in this Proxy Statement. If instructions are given with respect to some but not all of the proposals, such instructions as are given will be followed, and the proxy will be voted **FOR** the proposal on which no instructions are given.

The securities, which may be voted at the Meeting, consist of shares of the Common Stock. The Board of Directors has fixed the close of business on March 20, 2009, as the record date (the "Record Date") for the determination of stockholders of record entitled to notice of and to vote at the Meeting and any adjournments thereof. A total of 2,324,143 shares of the Common Stock were outstanding on the Record Date.

The presence, in person or by proxy, of the holders of at least a majority of the total number of shares of the Common Stock entitled to vote at the Meeting is necessary to constitute a quorum at the Meeting. Since many of our stockholders cannot attend the Meeting, it is necessary that proxy represent a large number. Accordingly, the Board of Directors has designated proxies to represent those stockholders who cannot be present in person and who desire to be so represented. In the event there are not sufficient votes for a quorum or to approve or ratify any proposal at the time of the Meeting, the Meeting may be adjourned in order to permit the further solicitation of proxies.

In order to be elected, a nominee need only receive a plurality of the votes cast in the election of the applicable class of directors for which he has been nominated. As a result, those persons nominated for election who receive the largest number of votes will be elected as directors. Accordingly, abstentions and shares not voted for any reason with respect to any one or more nominees will not be counted as votes against such nominees. No stockholder has the right to cumulatively vote his shares in the election of directors.

The proposal to ratify the appointment of the Bank's independent auditor for the year ending December 31, 2009 will be approved if the votes cast in favor of such action exceed the votes cast opposing the action. Abstentions and shares not voted for any reason will not be counted as votes against this proposal.

The advisory proposal to consider and approve the overall executive compensation programs, policies and procedures employed by the Bank, as described in the section headed Management Compensation and the tabular disclosure regarding executive officer compensation (together with the accompanying narrative disclosure) in this Proxy Statement is advisory only. The advisory approval of the overall executive compensation programs, policies and procedures will be approved if a majority of the votes cast on the proposal are voted in favor of the proposal. Abstentions and broker non-votes will not be included in determining the number of votes cast on the proposal and, accordingly, will have no effect on the nature of such votes. The Board of Directors will take into account the outcome of the vote when considering future executive compensation arrangements.

Proxies solicited hereby will be returned to the Board of Directors, and will be tabulated by one or more inspectors of election designated by the Board of Directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Following is certain information, as of the Record Date, regarding those persons or groups who held of record or who are known to the Bank to own beneficially, more than five percent of the issued and outstanding Common Stock:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Class¹</u>
Charles Felix Harvey Kinston, NC	261,261	11.01%
Robert Lee, Jr. and Sunny H. Burrows Atlanta, GA	241,662 ²	10.18%

¹ Based upon a total of 2,324,143 shares of Common Stock outstanding as of the Record Date. Also includes 48,950 shares of Common Stock subject to options that have vested or are exercisable within 60 days under the Employee Stock Option Plan.

² Mr. Burrows shares voting power with his wife and children.

Set forth below is certain information, as of the Record Date, regarding those shares of the Common Stock owned beneficially by each of the members of the Board of Directors of the Bank (including nominees for election at the Meeting), and the directors and executive officers of the Bank as a group.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership¹</u>	<u>Percentage of Class⁷</u>
Charles Felix Harvey Kinston, NC	261,261	11.01%
Vincent Robert Jones Greenville, NC	37,607	1.58%
C. Dwight Howard Kinston, NC	115,280 ²	4.86%
Oscar Greene, Jr. Kinston, NC	30,913	1.30%
Robert Lee Burrows, Jr. Atlanta, GA	241,662 ³	10.18%
James T. Hill, Jr. Kinston, NC	21,151 ⁴	.89%
Cameron McRae Kinston, NC	37,901 ⁵	1.60%
David Weil Goldsboro, NC	6,380	.27%

Marty Beam Kinston, NC	6,327	.27%
Kelly Barnhill, Sr. Greenville, NC	7,730	.33%
Richard A. Holder Kinston, NC	11,955 ⁶	.50%
All directors and executive officers as a group (12 people)	796,296	33.56%

¹ Unless otherwise noted, all shares are owned directly of record by the named individuals, by their spouses and minor children, or by other entities controlled by the named individuals.

² Includes 111,672 shares for which Mr. Howard shares voting and investment power with his spouse.

³ Mr. Burrows shares voting power with his wife and children.

⁴ Mr. Hill shares voting and investment power with his spouse.

⁵ Includes 33,345 shares for which Mr. McRae owns directly and 4,556 shares for which Mr. McRae shares investment and voting power.

⁶ Includes 7,970 shares for which Mr. Holder shares voting power with his children.

⁷ Based upon a total of 2,324,143 shares of Common Stock outstanding as of the Record Date. Also includes 48,950 shares of Common Stock subject to options that have vested or are exercisable within 60 days under the Employee Stock Option Plan.

PROPOSAL 1
ELECTION OF DIRECTORS

Nominees

The Bylaws of the Bank provide that the number of directors of the Bank shall not be less than seven or more than seventeen. The exact number of directors shall be fixed by the Board of Directors prior to the annual meeting of stockholders at which such directors are to be elected. The Board of Directors has currently fixed the size of the Board at eleven members. The Bank's Board of Directors is divided into three classes with staggered terms of office. Each class of directors shall be elected for terms of three years each, or until their earlier death, resignation, retirement, removal or disqualification or until their successors shall be elected and shall qualify.

The Board of Directors has nominated Vincent Robert Jones, C. Dwight Howard, James T. Hill, Jr., Robert Lee Burrows, Jr., and Richard A. Holder for election as directors to serve until the 2012 Annual Meeting of Stockholders or until their earlier death, resignation, retirement, removal or disqualification or until their successors shall be elected and shall qualify. Messrs. Jones, Howard, Hill, and Burrows are currently serving as directors of the Company.

The persons named in the accompanying form of proxy intend to vote any shares of Common Stock presented by valid proxies received by them to elect these five nominees, unless authority to vote is withheld or such proxies are revoked. In the event that any of the nominees should become unavailable to accept nomination or election, it is intended that the proxy holders will vote to elect in his stead such other person as the present Board of Directors may recommend. The present Board of Directors has no reason to believe that any of the five nominees will be unable to serve if elected to office. In order to be elected as a director, a nominee need only receive a plurality of the votes cast. Accordingly, shares not voted for any reason respecting any one or more nominees will not be counted as votes against such nominees. No stockholder has the right to vote his or her shares cumulatively in the election of directors.

(see next page)

Nominees and Continuing Directors

The following table sets forth as to each nominee and each director whose term is continuing and each director who is retiring, his name, age, principal occupation during the last five years, the year he was first elected as a director and the year in which his existing term of office expires.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL OF THE FOLLOWING NOMINEES FOR ELECTION AS DIRECTORS.

<u>Name</u>	<u>Age on 12/31/08</u>	<u>Principal Occupation During Last Five Years</u>	<u>Director Since</u>	<u>Expiration of Term</u>
NOMINEES				
Vincent Robert Jones	52	President and Chief Executive Officer of the Bank.	2002	2009
C. Dwight Howard	64	President, Carolina Greenhouses, Carolina Soil Company, Howard Development, Inc., East Coast Modulares, Inc., How Corp., LLC, Eastern Warehouses, LLC, and Carolina Modular Schools, Inc.	1998	2009
James T. Hill, Jr.	72	President and Co-owner, Tull Hill Farms, Inc.	2000	2009
Robert Lee Burrows, Jr.	49	Chairman of the Board of the Bank; Managing Partner of Four Corners Capital, LLC, Atlanta, Georgia and Director Carolina Finance.	2001	2009
Richard A. Holder	60	President, Harvey Fertilizer & Gas Company.	n/a	n/a
DIRECTORS CONTINUING IN OFFICE				
Charles Felix Harvey	88	Past Chairman of the Board of the Bank; Chairman of the Board, Harvey Enterprises & Affiliates.	1998	2010
Kelly Barnhill, Sr.	69	Chairman and Owner of Hendrix-Barnhill Company.	2006	2010
Oscar Greene, Jr.	84	Retired; formerly President, Electricon, Inc.; President, AFF One, Inc.; President, Atlantic Fly Fish, Inc.	1998	2011
Cameron McRae	59	President, Tands, Inc. – Bojangles Franchisee; President, McRae & Associates, Inc. – Management Company for the Franchise.	1999	2011
David Weil	73	President, Weil Enterprises, Real Estate Development and Management.	2001	2011
Marty Beam	61	President and Owner, W.A. Moore & Co.	2001	2011

Meetings of the Board and Committees of the Board

The Board of Directors conducts its business through meetings of the Board of Directors and through activities of its committees. The Board of Directors met six times during 2008. The Board has several standing committees including an Executive Committee, an Asset/Liability Committee, a Loan Committee, an Audit Committee, and a Community Reinvestment Committee. Those committees will also meet on a regular basis. The composition of the committees is as follows:

Executive Committee

Charles Felix Harvey*
C. Dwight Howard
Robert Lee Burrows
Oscar Greene, Jr.
Cameron McRae
David Weil
V. Robert Jones

Asset/Liability Committee

Marty Beam*
Robert Lee Burrows
Charles Felix Harvey
C. Dwight Howard
James T. Hill, Jr.
V. Robert Jones
Kelly Barnhill, Sr.

Loan Committee

Oscar Greene, Jr.*
Charles Felix Harvey
Cameron McRae
C. Dwight Howard
David Weil
V. Robert Jones
Robert Lee Burrows
Kelly Barnhill, Sr.

Audit Committee

James T. Hill, Jr.*
C. Dwight Howard
Oscar Greene, Jr.
Charles Felix Harvey
Cameron McRae

Community Reinvestment Committee

Marty Beam*
C. Dwight Howard
Charles Felix Harvey
Robert Lee Burrows
V. Robert Jones

*Chairman

Directors' Compensation

Board and Committee Fees: During 2008, each member of the Bank's Board of Directors received \$200 per month for his service in that capacity, except for the Chairman of the Board, who received \$225 per month. In addition, Directors received \$750 per Board meeting attended, except for the Chairman of the Board, who received \$1,500 for each Board meeting attended. Members of the Bank's committees received \$100 for all meetings attended, except Loan Committee members, who received \$150 for those meetings.

Executive Officers

The following table sets forth certain information with respect to the persons who are executive officers of the Bank.

<u>Name and Title</u>	<u>Age on 12/31/08</u>	<u>Positions and Occupations During Last Five Years</u>	<u>Employed By the Bank Since</u>
V. Robert Jones, President and Chief Executive Officer	52	President and Chief Executive Officer of the Bank.	2002
Doyle M. Thigpen, Executive Vice President, Secretary and Chief Financial Officer	50	Executive Vice President, Secretary and Chief Financial Officer of the Bank.	1998

Management Compensation

The following table shows, for the fiscal years ended December 31, 2008, 2007 and 2006, the cash and cash equivalent compensation paid by the Bank to V. Robert Jones, President and Chief Executive Officer, Doyle M. Thigpen, Executive Vice President, Secretary, and Chief Financial Officer, and D. Stuart Lindley, Executive Vice President and Chief Lending Officer. Mr. Jones' annual salary is \$180,000 as of January 1, 2009, and Mr. Thigpen's annual salary is \$110,000 as of January 1, 2009. Mr. Lindley is no longer employed with **the little bank** effective December 31, 2008.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>		<u>Stock Option Awards¹</u>	<u>All Other Compensation²</u>	<u>Total Compensation</u>
		<u>Salary</u>	<u>Bonus</u>			
V. Robert Jones, Chief Executive Officer	2008	\$180,000	\$25,000	\$19,763	\$21,958	\$246,721
	2007	\$165,000	\$35,000	\$20,310	\$21,418	\$241,728
	2006	\$150,000	\$25,000	\$17,691	\$25,842	\$218,533
Doyle M. Thigpen Executive Vice President, Chief Financial Officer	2008	\$110,000	\$15,000	\$2,993	\$ 7,722	\$135,715
	2007	\$105,000	\$15,000	\$2,993	\$ 7,029	\$130,022
	2006	\$ 97,500	\$ 9,250	\$2,993	\$ 6,731	\$116,474
D. Stuart Lindley, ³ Executive Vice President, Chief Lending Officer	2008	\$130,000	\$15,000	\$2,993	\$13,198	\$161,191
	2007	\$120,000	\$15,000	\$2,993	\$12,771	\$150,764
	2006	\$110,000	\$ 9,250	\$4,957	\$ 9,229	\$133,436

¹ Amounts listed do not reflect compensation actually received by the named executive officer. Instead, such amounts represent the amount of compensation cost recognized in accordance with the Statement of Financial Accounting Standards No. 123, as revised, "Share-Based Payment" ("FAS 123R") disregarding any adjustments for forfeiture assumptions.

² The Company provides its Executive Officers with certain group life, health, medical and other non-cash benefits generally available to all salaried employees and are not included in this column pursuant to SEC rules. The amounts shown in this column include the following:

- Matching contributions by the Company under **the little bank** 401(k) retirement plan. During 2008, 2007, and 2006, the Company's 401(k) matching contributions were \$7,600, \$7,463, and \$7,000, respectively for Mr. Jones, \$4,633, \$4,225, and \$4,108, respectively for Mr. Thigpen, and \$4,883, \$4,800, and \$4,680, respectively for Mr. Lindley.
- Also includes certain health insurance, group term life insurance, and long term personal life insurance premiums.

³ Mr. Lindley is no longer employed with **the little bank** effective December 31, 2008.

Employment Agreement. The Bank has entered into employment agreements with certain of its executive officers to ensure a stable and competent management base. The agreements provide for benefits as enumerated in the contracts and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officers' rights to receive certain vested rights, including compensation. In the event of a change in control of the Bank and in certain other events, as defined in the agreements, the Bank or any successor to the Bank will be bound to the terms of the contracts. The Bank entered into an employment agreement, dated August 19, 2004, with Vincent Robert Jones, that superseded an earlier employment agreement dated March 2002. The new agreement specified a base salary of \$120,000 per year to be increased from time to time (currently \$180,000) at the discretion of the Board of Directors. Bonuses are allowed under the contract as are certain other benefits available to all salaried employees. The term of the contract is three years and shall be automatically extended one year on each anniversary date of the contract unless written notice by the Bank or Mr. Jones is received 90 days prior to an anniversary date advising the other party that the agreement shall not be further extended.

Salary, Bonus, and Benefits. Salaries for Executive Officers are approved by the Board of Directors. Any increases to the salaries of Executive Officers must be approved by the Board of Directors. The Company provides Executive Management with certain group life, health, medical, and other non-cash benefits generally available to all salaried employees. Executive Officers may receive bonuses from time-to-time at the discretion of the Board of Directors.

401(k) Profit Sharing Plan. In November, 1998, the Bank established a contributory savings plan for its employees, which meets the requirements of Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). All employees who are at least twenty-one years of age may elect to contribute up to 16% of their compensation to the plan each year, subject to certain maximums imposed by federal law. Each year, the Bank will determine the percentage of each participant's contribution that it will match with an employer contribution. For the plan year ending December 31, 2003, that percentage match was 3%. Beginning January 1, 2004, the Bank's 401(k) Profit Sharing Plan was amended by adding a "Safe Harbor Provision". For the Plan Year beginning January 1, 2004 the company's percentage match was calculated as follows: 100% up to 3% of compensation, plus 50% of the next 2% of compensation. For purposes of the 401(k) profit sharing plan, compensation means a participant's compensation received from the employer as reported on Form W-2.

Participants are fully vested in amounts that they contribute to the plan as well as amounts contributed to the plan on their behalf by the Bank as employer matching contributions or as discretionary contributions. Benefits under the plan are payable in the event of the participant's retirement, death, disability or termination of employment. Normal retirement age under the plan is 65 years of age.

Capital Purchase Program. On December 23, 2008, as part of the as part of the Emergency Economic Stabilization Act of 2008 ("EESA") Capital Purchase Program ("CPP"), the Bank entered into a Letter Agreement (the "Letter Agreement") with the United States Department of the Treasury ("Treasury"), pursuant to which the Bank sold (i) 7,500 shares of the Bank's Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") and (ii) a warrant ("Warrant") to purchase 375 shares of the Bank's Series B Fixed Rate Non-Cumulative Perpetual Preferred Stock ("Series B Preferred Stock"). The Treasury immediately exercised the Warrant and became the owner of the Series B Preferred Stock on December 23, 2008.

In order to qualify to participate in the CPP, the Bank agreed, so long as Treasury continues to hold debt or equity in the Bank, to take all necessary actions to ensure that the Bank's compensation arrangements and benefits plans with respect to its executive officers comply with the EESA and any related rules and regulations promulgated thereunder, including a prohibition on golden parachute payments and the inclusion of claw-back provisions on those elements of incentive compensation based on the achievement of financial or operating metrics. Accordingly, to permit the Bank to participate in the CPP, the executive officers entered into agreements with the Bank amending their respective employment agreements to the extent necessary to comply with the EESA and any related rules and regulations promulgated thereunder (the "Employment Agreement Amendments"). The executive officers also executed waivers waiving any claim against Treasury or the Bank for any changes in their compensation or benefits required to comply with Treasury regulations (the "Waivers").

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (the “ARRA”) which, among other things, requires the Treasury to adopt standards relating to the executive compensation practices of participants in the CPP. The ARRA amends the EESA to require that the new standards be applicable to any institution that participates in the CPP, which includes the Bank, or otherwise receives financial assistance under EESA, for so long as the obligation arising from such assistance is outstanding. The Treasury has not yet adopted the implementing standards required under the ARRA; however, the ARRA requires that the standards limit the form and amount of any bonus, retention award or compensation awarded to the Bank’s Chief Executive Officer; and redefine the term “parachute payment” so as to prohibit any payment to the Bank’s executive officers for departure from the Bank for any reason, except for payments for services performed or benefits accrued. The Bank will comply with the standards issued by the Treasury and, as a result, the description of the Bank’s executive compensation plans, programs and arrangements going forward may change from what is described in this Proxy Statement.

Stock Option Plan. During 1999, the Bank adopted, with shareholder approval, an Employee Stock Option Plan (the “Employee Plan”). During 2004, the Bank adopted, with shareholder approval, a Director Nonstatutory Stock Option Plan (the “Director Plan”). Certain of the options granted under the Employee Plan vested immediately at the time of grant, with the remainder vesting over five to six years. None of the options in the Director Plan had been granted as of December 31, 2008. All unexercised options expire ten years after the date of the grant. The Bank has granted 111,300 Stock Options since its inception. The Plan expired on November 9, 2008. No additional stock options have been granted since this expiration date. As of the Record Date, there were options outstanding to purchase a total of 70,740 shares of the Bank’s common stock.

Equity Compensation Plan Information

The following table contains certain information about all stock options held by our Executive Officers at December 31, 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

<u>Name</u>	<u>Number of Securities Underlying Unexercised Options (#)</u>		<u>Option Exercise Price¹ (\$)</u>	<u>Option Expiration Date</u>
	<u>Vested¹</u>	<u>Not Vested¹</u>		
V. Robert Jones	21,705	-0-	\$ 7.60	3/18/2012
	1,969	1,312	10.95	3/01/2015
	3,750	2,500	13.20	12/30/2015
	1,200	4,800	21.00	1/31/2017
Doyle M. Thigpen	788	525	\$10.95	3/01/2015
	1,125	750	13.20	12/30/2015
D. Stuart Lindley	15,953	-0-	\$ 6.27	11/22/2009
	7,977	-0-	6.27	11/22/2010
	788	525	10.95	3/01/2015
	1,125	750	13.20	12/30/2015

¹ Adjusted to reflect the Stock Splits/Dividends. The options listed were granted under the Employee Stock Option Plan. Each option expires on the earlier of the expiration date shown or 90 days after termination of the recipient’s employment. Options may be exercised to purchase vested shares only.

Certain Indebtedness and Transactions of Management

The Bank makes loans to its executive officers and directors in the ordinary course of its business. These loans are currently made on substantially the same terms, including interest rates, collateral and repayment terms, as those then prevailing for comparable transactions with nonaffiliated persons, and do not involve more than the normal risk of collectibility or present any other unfavorable features. Applicable regulations prohibit the Bank from making loans to its executive officers and directors at terms more favorable than could be obtained by persons not affiliated with the Bank. The Bank's policy concerning loans to executive officers and directors currently complies with such regulations.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT AUDITOR

Dixon Hughes PLLC ("Dixon Hughes") has been selected as the Bank's independent auditor for the year ending December 31, 2009. Such selection is being submitted to the Bank's stockholders for ratification. Representatives of Dixon Hughes are expected to attend the Meeting and will be afforded an opportunity to make a statement, if they so desire, and to respond to appropriate questions from stockholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR RATIFICATION OF THE SELECTION OF DIXON HUGHES AS INDEPENDENT AUDITOR FOR THE BANK FOR THE FISCAL YEAR ENDING DECEMBER 31, 2009.

PROPOSAL 3

ADVISORY VOTE ON EXECUTIVE COMPENSATION

Section 7001 of the AARA amended Section 111(e) of the EESA passed in 2008. EESA is the legislation under which the Bank received “TARP” investment funds from the U.S. Treasury. Section 7001 requires that our shareholders be provided an opportunity to cast a separate advisory vote on the compensation paid to our senior executive officers, as described in the section headed Management Compensation and the tabular disclosures regarding named executive officer compensation (together with the accompanying narrative disclosure) contained in this Proxy Statement.

We believe that our executive compensation policies and procedures are strongly aligned with the long-term interests of our shareholders. We also believe that levels of compensation received by our named executive officers are fair, reasonable and within the ranges of compensation paid by comparable financial institutions to similarly situated executives.

This proposal, commonly known as a “Say-on-Pay”, gives you as a shareholder the opportunity to endorse or not endorse our executive pay programs, policies and procedures through the following resolution:

“Resolved, that the shareholders approve the overall executive compensation programs, policies, and procedures employed by **the little bank, Inc.**, as described in the section headed Management Compensation and the tabular disclosure regarding named executive officer compensation (together with the accompanying narrative disclosure) in this Proxy Statement.”

Because your vote is advisory, it will not be binding upon the Board. However, the Board of Directors will take into account the outcome of the vote when considering further executive compensation agreements.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE NON-BINDING ADVISORY PROPOSAL ON EXECUTIVE COMPENSATION.

DATE FOR RECEIPT OF STOCKHOLDERS' PROPOSALS

It is presently anticipated that the 2010 Annual Meeting of Stockholders will be held in April, 2010. In order for stockholder proposals to be included in the proxy materials for that meeting, such proposals must be received by the Secretary of the Bank at the Bank's principal administrative office not later than November 10, 2009, and meet all other applicable requirements for inclusion therein.

OTHER MATTERS

Management knows of no other matters to be presented for consideration at the Meeting or any adjournments thereof. If any other matters shall properly come before the Meeting, it is intended that the proxyholders named in the enclosed form of proxy will vote the shares represented thereby in accordance with their judgment, pursuant to the discretionary authority granted therein.

By Order of the Board of Directors,



Vincent Robert Jones
President and Chief Executive Officer

Kinston, North Carolina
March 26, 2009