



the little bank

We Want to Know You.

2014

ANNUAL REPORT

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Financial Information

A complete 2014 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 23, 2015 at 10:00 a.m. at the Hampton Inn, in Kinston, NC.



The newly constructed Goldsboro Branch located at 2406 East Ash Street, Goldsboro opened in February 2015.

Dear little bank shareholders,

The Little Bank (the “Bank” or the “Company”) board of directors and management are pleased to report that the 2014 results include a third straight year of record earnings. As previously communicated, in late 2013 the Bank made a concerted decision to direct its efforts towards growth after several years of internal focus on asset quality as the United States economy suffered through the recession. The asset growth focus was undertaken through increasing our sales force in several existing markets and building our presence in the growing Wilmington, NC market with a loan production office. While these additions created new expenses as we entered 2014, the additional investment produced excellent lending results for the year, enabling the Bank to cover the related overhead well ahead of projections. While we continue to see positive economic improvement in our markets, the interest rate forecast is unclear, and we still believe the national and global economic environment is fragile. As a result, we will continue to balance our desire for growth with our commitment to safety and soundness for our customers and shareholders.

The Bank continues to be in excellent financial condition. Capital and liquidity ratios are strong and our loan quality indicators are excellent. As a result, the Bank was able to continue its policy of paying semi-annual cash dividends on its common stock. The Bank paid out \$447,000 in cash dividends to shareholders in 2014; the equivalent of \$0.15 per share. In addition, the Bank maintained its common stock repurchase program throughout 2014, purchasing 46,806 shares of common stock at an average price of \$11.12. Management and the board of directors will continue the common stock repurchase plan as it deems beneficial to the Company and the shareholders.

During 2014 we lost our beloved co-founder and chairman C. Felix Harvey III. We will never forget his leadership and guidance as we move forward. Mr. Harvey left an indelible mark on the Bank and our conservative and thoughtful approach to our shareholders, customers, employees and the communities we serve.

During 2014 the Bank added David Womack to our board of directors. Mr. Womack’s experience and knowledge of Eastern North Carolina have been a significant benefit to our Company.

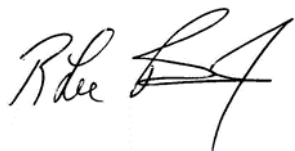
The Bank announced the relocation of our Goldsboro office to the corner of Ash Street and Spence Avenue during 2014 and we are pleased to report that we successfully opened that new facility in February 2015 and are already seeing positive results in the form of new customer traffic and account opening.

Net income for the year increased 4.9% to \$2,925,000 or \$0.94 per basic share. After adjusting for dividends and the accretion of discount on preferred stock outstanding, net income available to common shareholders increased 9.5% compared to the prior year. Return on average assets and average equity were well above peer averages at .88% and 9.29%, respectively, for the year. Loans increased 10.7% to \$247 million while total deposits increased 6.1% to \$277 million over December 31, 2013 levels. Results were primarily driven by continued outstanding loan quality and significant loan growth. These two factors combined to keep loan loss provision expense low and increase net interest income. Finally, the Bank continues its history of managing expenses. Our efficiency ratio of 63.89% is among the best in our peer group.

Mr. Harvey always liked to know how our founding shareholders have done, so we thought we might share this interesting information with you. If you were a founding shareholder of the little bank at its inception in November, 1998 your cost basis per share is \$4.68 per share adjusted for the Bank’s numerous stock dividends and stock splits over the years. In addition, since that time the Bank has paid over \$3,680,000 in dividends to the shareholders of common stock. We continue to be keenly focused on returns for all shareholders and we enjoy serving you.

Your management and board of directors continue to believe that the industry is positioned for consolidation. We also believe this consolidation will create a variety of opportunities, including attracting new customers, strengthening our sales force and other opportunities, including whole bank or branch acquisitions. The Bank is well positioned to take advantage of these situations as they present themselves. We continue to be excited about the long term prospects for community banking and the markets we serve. The board of directors, management and all of our associates would like to thank you for your continued support.

Sincerely,



Robert Lee Burrows, Jr.
Chairman



Vincent R. Jones
President & Chief Executive Officer

“Big enough to handle your needs, small enough to care.”



Founded by a group of prominent Eastern North Carolina businessmen in November of 1998, *the little bank's* guiding principal is that old fashion personal service is as valuable today as it was 100 years ago. At *the little bank*, we do want to know who you are. We pride ourselves at being big enough to handle your needs and small enough to know what your needs are.

We believe that local decision-making is critical to our success. That's why our local bank officers are authorized to make decisions involving everything from a customer's credit request to the charitable support of community organizations.

Today, *the little bank* has seven branches throughout Eastern North Carolina. Our Company is a full service banking institution, providing everything from complicated commercial lending transactions to basic mortgage financing for primary and secondary homes. In addition, we offer a full array of deposit services to handle every business and personal need. Our online and mobile banking services provide convenient access to your account activity anywhere you have access to the Internet. The Bank's technology also gives customers the ability to make deposits remotely.

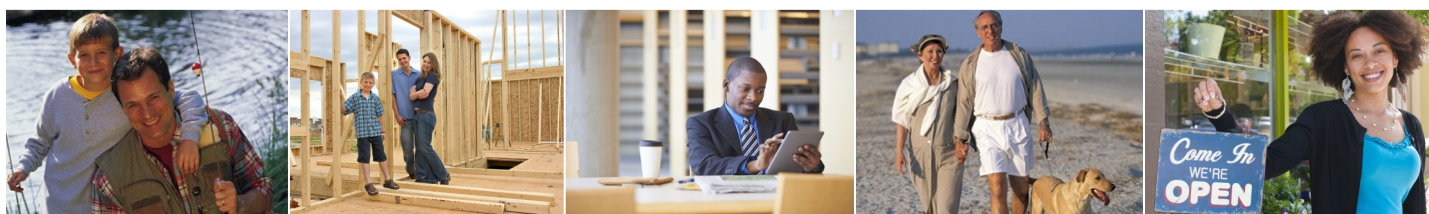
If you want to experience modern day technology combined with old-fashioned customer service, talk to the little bank today. We want to know you!



FINANCIAL HIGHLIGHTS

Years Ended December 31, 2014, 2013 and 2012 (Dollars in thousands, except per share data)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Earnings Summary:			
Net Income	\$ 2,925	\$ 2,788	\$ 2,468
Preferred stock dividends & net accretion of discount	-	(116)	(525)
Net income available to common stockholders	2,925	2,672	1,943
Per Common Share:			
Net income basic	\$.94	\$.86	\$.62
Net income diluted	\$.94	\$.86	\$.62
Book value per common share	\$ 10.58	\$ 9.53	\$ 10.19
Selected Year-End Balances:			
Loans, net of unearned income	\$246,147	\$222,830	\$214,728
Other interest earning assets	69,323	71,942	75,980
Total Assets	339,048	311,959	305,883
Deposits	277,381	261,393	250,098
Stockholder's equity	32,533	29,728	31,726
Selected Performance Ratios:			
Return on average assets	.88%	.91%	.80%
Return on average equity	9.29%	9.12%	7.07%
Efficiency ratio	63.89%	64.71%	61.28%
Asset Quality Ratios:			
Allowance for loan losses to period-end loans	1.50%	1.73%	1.90%
Net loan charge-offs to average loans	0.13%	0.08%	0.31%
Capital Ratios:			
Total risk-based capital	13.97%	14.29%	14.73%
Tier 1 risk-based capital	12.71%	13.04%	13.47%
Tier 1 leverage ratio	9.58%	9.71%	10.11%
Equity to assets	9.60%	9.53%	10.37%
Number of Common Shares:			
Basic	3,110,514	3,119,355	3,113,891
Diluted	3,112,345	3,124,528	3,113,891
Outstanding at end of period	3,074,021	3,118,445	3,113,891



BALANCE SHEETS*December 31, 2014 and 2013 (Dollars in thousands)*

ASSETS	2014	2013
Cash and due from banks	\$ 10,792	\$ 5,897
Interest-earning deposits with banks	6,461	5,562
Federal funds sold	687	467
Investment securities available for sale	62,175	65,913
Loans	246,147	222,830
Allowance for loan losses	<u>(3,688)</u>	<u>(3,850)</u>
NET LOANS	242,459	218,980
Accrued interest receivable	888	815
Federal Home Loan Bank stock	1,563	1,267
Bank premises and equipment, net	4,739	3,465
Bank-owned life insurance	7,469	7,216
Other real estate owned	350	520
Other assets	<u>1,465</u>	<u>1,857</u>
TOTAL ASSETS	<u>\$ 339,048</u>	<u>\$ 311,959</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 100,266	\$ 86,378
Savings	4,896	3,350
Money market and NOW	51,317	44,789
Time	<u>120,902</u>	<u>126,876</u>
TOTAL DEPOSITS	277,381	261,393
Federal Home Loan Bank advances	28,500	20,000
Accrued interest payable	89	85
Accrued expenses and other liabilities	<u>545</u>	<u>753</u>
TOTAL LIABILITIES	<u>306,515</u>	<u>282,231</u>
Stockholders' Equity:		
Common stock, no par value, 24,000,000 shares authorized	28,262	27,107
Retained earnings	4,100	3,198
Accumulated other comprehensive income (loss)	<u>171</u>	<u>(577)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>32,533</u>	<u>29,728</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 339,048</u>	<u>\$ 311,959</u>

STATEMENTS OF OPERATIONS

Years Ended December 31, 2014, 2013 and 2012 (Dollars in thousands, except per share data)

	2014	2013	2012
INTEREST INCOME			
Loans	\$ 11,445	\$ 10,732	\$ 11,082
Investment securities	1,212	1,184	1,567
Federal funds sold	4	4	5
Interest-bearing deposits with banks	34	30	16
TOTAL INTEREST INCOME	<u>12,695</u>	<u>11,950</u>	<u>12,670</u>
INTEREST EXPENSE			
Money market, NOW and savings deposits	230	245	262
Time deposits	920	1,216	1,642
Advances from the Federal Home Loan Bank	202	176	225
TOTAL INTEREST EXPENSE	<u>1,352</u>	<u>1,637</u>	<u>2,129</u>
NET INTEREST INCOME	11,343	10,313	10,541
PROVISION (RECOVERY) FOR LOAN LOSSES	<u>150</u>	<u>(57)</u>	<u>815</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>11,193</u>	<u>10,370</u>	<u>9,726</u>
NONINTEREST INCOME			
Service charges and fees on deposit accounts	463	433	444
Fees from presold mortgages	276	290	357
Other	669	652	626
TOTAL NONINTEREST INCOME	<u>1,408</u>	<u>1,375</u>	<u>1,427</u>
NONINTEREST EXPENSE			
Salaries and employee benefits	5,028	4,522	4,173
Occupancy	809	730	663
Data processing	819	797	692
Marketing	171	141	151
Other	1,319	1,373	1,655
TOTAL NONINTEREST EXPENSE	<u>8,146</u>	<u>7,563</u>	<u>7,334</u>
INCOME BEFORE INCOME TAXES	4,455	4,182	3,819
INCOME TAXES	<u>1,530</u>	<u>1,394</u>	<u>1,351</u>
NET INCOME	<u>\$ 2,925</u>	<u>\$ 2,788</u>	<u>\$ 2,468</u>
PREFERRED STOCK DIVIDENDS	-	(78)	(398)
ACCRETION OF DISCOUNT	-	(38)	(127)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 2,925</u>	<u>\$ 2,672</u>	<u>\$ 1,943</u>
NET INCOME PER COMMON SHARE			
Basic	<u>\$.94</u>	<u>\$.86</u>	<u>\$.62</u>
Diluted	<u>\$.94</u>	<u>\$.86</u>	<u>\$.62</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	<u>3,110,514</u>	<u>3,119,355</u>	<u>3,113,891</u>
Diluted	<u>3,112,345</u>	<u>3,124,528</u>	<u>3,113,891</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, Pitt and New Hanover 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 and other real estate owned.

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 recorded on the trade date and 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.

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.

NOTES TO SUMMARY FINANCIAL STATEMENTS (continued)

Other Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value, less estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations of the property are periodically performed by management and the real estate is carried at fair value minus the estimated cost to sell the property. Revenues and expenses from operations and changes in the valuation allowance are included in other real estate expense.

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. 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, 2014, 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 were 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. On October 23, 2012, the U.S. Treasury completed the sale of Series A and Series B preferred stock to private investors through a registered public offering. The Bank repurchased and retired 4,700 shares, or \$4,700,000, of Series A preferred stock and 374 shares, or \$374,000, of Series B preferred stock. The remaining 2,801 shares of stock were acquired by third-party investors. On June 5, 2013, the Bank repurchased and retired the remaining 2,800 shares, or \$2,800,000, of Series A preferred stock and 1 share, or \$1,000, of Series B preferred stock. All transactions involving the repayment of preferred stock had been previously approved by the Bank's regulators.





Kinston Branch

1101 W. Vernon Ave., Kinston, NC
252-939-3900



Greenville Branch

1011 Red Banks Road, Greenville, NC
252-215-3030



Goldsboro Branch

2406 E. Ash Street, Goldsboro, NC
919-583-8989



New Bern Branch

531 McCarthy Blvd., New Bern, NC
252-633-3585



La Grange Branch

101 S. Caswell Street, La Grange, NC
252-566-5600



Wilmington Branch

1427 Military Cutoff Rd., Suite 210
Wilmington, NC
910-509-7477



Jacksonville Branch

118 Western Blvd., Jacksonville, NC
910-353-8600

the little bank Leadership

Executive Officers

Vincent R. Jones

President
Chief Executive Officer

Doyle M. Thigpen

Executive Vice President
Chief Financial Officer & Secretary

Anne R. Corey

Executive Vice President
Chief Credit Officer

Susan W. Barrett

Executive Vice President
Operations Manager

Board of Directors

Robert Lee Burrows, Jr.

Chairman of the Board,
the little bank
CEO of Banks Street Partners, LLC

C. Dwight Howard

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

David Weil

President,
Weil Enterprises, Real Estate
Development & Management

Vincent R. Jones

President and
Chief Executive Officer,
the little bank

Cameron McRae

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

James T. Hill, Jr.

President
Tull Hill Farms, Inc.

Dr. Raymond C. Ball, Jr.

Coastal Carolina Orthodontics

Marty Beam

President & Owner,
W.A. Moore & Co.

J.E. Blizzard

President and Owner,
Contract Flooring Design

Lawrence Davenport

President,
J.P. Davenport & Son, Inc.

David Womack

Chairman,
Womack Electric Supply Co., Inc.

Stock Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.
51 Mercedes Way
Edgewood, NY 11717

Market for Common Stock

The little bank's common stock is
traded on the OTCQX under
the symbol "LTLB."

Independent Auditors

Dixon Hughes Goodman LLP
1003 Red Banks Road
Greenville, NC 27858



the little bank
We Want to Know You.

PO Box 279, Kinston, NC 28501
www.thelittlebank.com
Member FDIC