

SAFE, SOUND  
& SECURE  
SINCE 1920



ECB BANCORP, INC.

ANNUAL REPORT 2008

## COMPANY PROFILE

ECB Bancorp, Inc. is a bank holding company headquartered in Engelhard, North Carolina, whose wholly-owned subsidiary, The East Carolina Bank (the “Bank” or “ECB”) is a state chartered, independent, community bank founded in 1919. At year-end 2008, The East Carolina Bank had 217 full-time employees. ECB is a member of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank of Atlanta, the American Bankers Association, the Independent Community Bankers of America and the North Carolina Bankers Association.

### Mission Statement

The East Carolina Bank will be operated in a financially sound manner and will achieve its growth and profit objectives through the delivery of select, quality financial products and services to individuals, small business, and agricultural customers in eastern North Carolina. We will be dedicated to employee development, strive to exceed the public’s expectations with our service orientation, and seek to have our corporate values reflect those of the community. The result shall be a high performance independent bank providing career opportunities for our employees, superior returns for our shareholders, and Excellence in Community Banking for our customers.

ECB now offers a full array of investment and insurance products as well as a variety of cash management products targeted to help even the smallest business manage their time and money. The Bank currently operates 24 full-service branches, 1 loan production office and 25 automated teller machines in eastern North Carolina. ECB Bancorp, Inc.’s common stock is listed on The NASDAQ® Global Market under the symbol “ECBE.” More information can be obtained by visiting ECB’s web site at [www.ecbbancorp.com](http://www.ecbbancorp.com).

### Board of Directors

**George Thomas Davis, Jr.**  
*Vice Chairman of the Board*  
Attorney at Law  
Davis & Davis  
Swan Quarter, North Carolina

**Gregory C. Gibbs**  
*General Manager*  
Gibbs Store LLC  
(retail hardware)  
Engelhard, North Carolina

**John F. Hughes, Jr.**  
*Retired Executive Director*  
Albemarle Pamlico Economic  
Development Corp.  
Manteo, North Carolina

**Arthur H. Keeney III**  
*President and Chief Executive Officer*  
ECB Bancorp, Inc.  
The East Carolina Bank  
Engelhard, North Carolina

**J. Bryant Kittrell III**  
*President and Owner*  
Kittrell & Associates, Inc.  
(real estate development & sales)  
Greenville, North Carolina

**Joseph T. Lamb, Jr.**  
*President*  
Joe Lamb, Jr. & Associates, Inc.  
(real estate sales and rentals)  
Nags Head, North Carolina

**B. Martelle Marshall**  
*President and Co-owner*  
Martelle’s Feed House Restaurant  
Engelhard, North Carolina

**R.S. Spencer, Jr.**  
*Chairman of the Board*  
President  
R.S. Spencer, Inc.  
(retail merchant)  
Engelhard, North Carolina



(from left to right: Marshall, Lamb, Davis, Keeney, Kittrell, Spencer, Hughes, Weeks, Gibbs)

**Michael D. Weeks**  
*(business, marketing & internet consultant)*  
Washington, North Carolina

## FINANCIAL HIGHLIGHTS

<i>(Dollars in thousands, except per share data)</i>	<b>2008</b>	2007	Percent Change
For the year:			
Operating income	<b>\$ 45,907</b>	\$ 46,169	(0.6)%
Operating expense	<b>42,488</b>	41,357	2.7%
Net income	<b>3,419</b>	4,812	(28.9)%
Per share—basic	<b>\$ 1.19</b>	\$ 1.65	(27.9)%
Per share—diluted	<b>\$ 1.18</b>	\$ 1.65	(28.5)%
Cash dividends declared per share	<b>\$ 0.73</b>	\$ 0.70	4.3%
Weighted average shares outstanding—basic	<b>2,884,396</b>	2,908,371	(0.8)%
Weighted average shares outstanding—diluted	<b>2,889,016</b>	2,914,352	(0.9)%
At year-end:			
Assets	<b>\$841,851</b>	\$643,889	30.7%
Earning assets	<b>783,306</b>	588,168	33.2%
Loans	<b>538,836</b>	454,198	18.6%
Investment securities	<b>239,709</b>	125,888	90.4%
Allowance for probable loan losses	<b>5,931</b>	4,083	45.3%
Deposits	<b>629,152</b>	526,361	19.5%
Shareholders' equity	<b>67,943</b>	66,841	1.6%
Book value per share	<b>\$ 23.89</b>	\$ 22.88	4.4%
Averages:			
Assets	<b>\$728,093</b>	\$621,914	17.1%
Earning assets	<b>670,768</b>	568,864	17.9%
Loans	<b>504,426</b>	431,579	16.9%
Deposits	<b>578,340</b>	512,072	12.9%
Shareholders' equity	<b>66,465</b>	64,312	3.3%

**Loan Growth**  
*(in millions)*



**Deposit Growth**  
*(in millions)*



**Asset Growth**  
*(in millions)*



## *ECB IS STRONG, SAFE AND SECURE*

### **Dear Shareholders:**

On the cover of this year's annual report is a photo of a lone cypress tree in the early dawn. Those of you from eastern North Carolina will easily recognize that the photo is of Lake Mattamuskeet in Hyde County.

The cypress is extremely tolerant and adapts to different soil types and even drought. It is durable, strong and stands tall. Cypress trees are resilient and have weathered many storms. They can enjoy a long life span of hundreds of years. Each spring comes a renewal of life when new green leaves form. The cypress plays an important role in the ecosystem as it is invaluable to wildlife for food and cover.

The East Carolina Bank's (ECB) story is similar. Even with the economic downturn this past year, we remain strong and safe. We stand tall among our peers in our consistent, sound lending practices. We remain focused on sustainable balance sheet strength, liquidity, and cost control in addition to the production of a strong, quality net income stream. For almost nine decades, ECB has been a significant leader in an increasing number of communities by helping them grow and prosper. We intend to continue this support for many years to come.

In 2008, we witnessed the collapse or merger of some of this country's largest financial institutions (principally investment banks). I am gratified to report that ECB remains in fine financial condition. Due primarily to margin pressure as rates continued to decline particularly in the fourth quarter, our net income declined to \$3,419,000 for the year ended December 31, 2008 from net income of \$4,812,000 for the year ended December 31, 2007. Net income per share on a diluted basis for 2008 was \$1.18, a reduction from \$1.65 per share (diluted) earned a year ago. The Bank's return on average assets in 2008 was 0.63% compared to 1.03% a year ago, and the return on average equity in 2008 was 7.09%, compared to 9.98% return on average equity for the year ended December 31, 2007.

ECB's consolidated assets increased 30.7% to \$841.9 million at December 31, 2008 from \$643.9 million at December 31, 2007. Total deposits increased 19.5% to \$629.2 million at December 31, 2008 from \$526.4 million at December 31, 2007. Our loan portfolio totaled



**Arthur H. Keeney III**

*President and Chief Executive Officer*

\$538.8 million at December 31, 2008, which represents an 18.6% increase over loans of \$454.2 million at December 31, 2007.

Asset quality continues to be a major focus and by any statistical measurement continues to remain above average relative to our peer group. For the year 2008, net loan charge-offs were 0.12% of average loans which compared to net loan charge-offs of 0.13% of average loans at December 31, 2007. Non-performing loans increased slightly from 2007 and represented 1.85% of total loans at December 31, 2008, although this was a decrease from non-performing loans of 2.27% of total loans reported at September 30, 2008. Capital levels also remain above average and our allowance for loan losses stood at 1.10% at December 31, 2008, up from 0.90% at December 31, 2007.

ECB took advantage of a steepening yield curve in the first quarter of 2008 and entered into a \$30 million leveraged transaction (5 years duration) in order to increase the yield in our investment portfolio and enhance our interest rate margin (borrowed funds are used to buy higher yielding investment securities). We have previously used this strategy and anticipate replacing these investment assets with higher yielding loans over time as these investments mature.

On January 16, 2009, we completed the issuance and sale of \$17.9 million in senior cumulative preferred stock under the U.S. Treasury Department's Capital Purchase

## *ECB RECEIVED A 4-STAR RATING FROM BAUERFINANCIAL*

Program (CPP). Although prior to that transaction, our capital was well above the level at which banks and bank holding companies are classified as “well capitalized” under the capital adequacy guidelines of the FDIC and the Federal Reserve, respectively, we were pleased to be selected for participation in this program intended for financially strong institutions. This investment has strengthened our already solid capital ratios and our ability to support our local and regional economies during the duration of the current economic downturn. We are in the business to lend money and we will continue to lend money to creditworthy businesses and individuals.

On a pro forma basis, the effect of the additional capital would have been to increase our leverage capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio to 10.99%, 13.68% and 14.64%, respectively, from their actual levels on December 31, 2008 of 8.65%, 10.83% and 11.80%, respectively.

### **Strong Roots and Values**

In 1920, The East Carolina Bank began as the Engelhard Bank & Trust Company in a tiny clapboard barbershop in downtown Engelhard, North Carolina. Despite these humble beginnings, it proved to be a solid foundation of both principle and practice enduring economic and natural disasters. ECB also has the distinct honor of being “the bank that did not close” during the disastrous stock market troubles of 1929. Many say that the Bank never received President Roosevelt’s proclamation in time to close because of the remoteness of the area at that time.

Today, ECB is a regional leader in both its communities and the banking industry. We now serve eastern North Carolina with 24 full-service branch locations in thirteen counties, over 220 employees and more than \$840 million in assets. The traditional values of honesty, fairness and willingness to lend a helping hand are still the foundation that we practice each day. We have also received a 4-star rating from BauerFinancial signifying that we continue to be one of the nation’s strongest banks.

### **Branching Out Through Organic Growth**

In 2008, we opened our newest branch in Leland (Brunswick County) and expanded the base of business developed from the loan production office which opened

in this community in 2007. Choosing this market has proven to be a good investment as the branch is performing well. We are proceeding cautiously with our capital expenditures during these challenging times and therefore our plans to build an additional branch in 2009 on Market Street North in the Porter’s Neck Township of Wilmington, NC have been deferred for several months.

Our growth and sound performance were once again recognized as ECB received further acknowledgment in 2008 as one of the nation’s top performing small-cap Banks and Thrifts (SM-All Stars) by leading investment banking firm Sandler O’Neill and Partners, L.P. The Bank ranked 33rd among the 574 publicly traded financial institutions that achieved a rating of outstanding. The analysis focused on growth, profitability, credit quality and capital strength, thus eliminating 94% of the banks and thrifts with a market cap of less than \$2 billion.

### **Changing the Landscape**

Charles Darwin once said, “It is not the strongest species that survives nor the most intelligent, but the one most responsive to change.” Throughout our history, one of our key strengths has been to embrace change and progress. We remain focused on meeting the ever changing needs of our customers and communities.



*Leland, Brunswick County Branch*

## LETTER *(CONTINUED)*

In 2008, we implemented a new account platform that made our account opening process easier, faster and more efficient. Our customer service representatives were eager to switch to this new system as it helps them easily meet the customer's current and future needs.

When concerns about FDIC Insurance coverage rose when some banks in the U.S. began to fail, ECB began offering Certificate of Deposit Account Registry Service or CDARS to our customers. CDARS allows ECB to provide our customers with access to up to \$50 million in FDIC insurance on CD's. The funds are placed in a network of other sound FDIC insured institutions around the nation. It is simple and saves time and money as our customers can safely deal with just ECB to get the coverage they need versus having to deposit funds into multiple banks at multiple locations.

For our small business customers, we introduced a Business Debit Card for not just the owner, but also select employees of the business. The card takes the place of check writing, so it is convenient, widely accepted, safer and saves time.

In October, we launched a loan documentation imaging project. All loan documents are now being imaged under strict, quality control guidelines. The process allows us to view and retrieve the documents in less time, saves money, reduces our storage needs and saves trees by not having to make paper copies.

New products and projects are important to our growth and success, but our commitment to building solid relationships with our customers and communities is paramount. It takes a strong team working together to accomplish great things. We value our employees' enthusiasm and commitment in performing their jobs and helping others.

As in years past, we participated in the "National Teach Children to Save Day." Over 525 students in elementary and middle schools in eastern North Carolina learned valuable lessons in money management skills and were encouraged to save money for their future.

A special highlight for us this year was the adoption of Charlie Company in their third deployment in Iraq stationed at COB (Contingency Operating Base) Speicher

near Tikrit. Our employees and customers donated gifts of all sizes and shapes. Over 50 boxes arrived overseas just before Christmas. The thank you note that we received from those brave men and women would bring tears to your eyes. As one employee put it, "This made my Christmas!"

On a sad note, we lost two former executives in 2008: Claire Spencer, our former Comptroller and Executive Vice President who retired in 1997 after 40 years of service and Edward Green, former Executive Vice President who retired in 1993.

Even with the nation's current uncertain economic situation and the stressed condition of the markets, we are optimistic. Our goals of achieving high asset quality, maintaining a strong capital base and creating a sustainable stream of net income are designed to build long-term shareholder value. It is my opinion that we are well positioned with a strong team and common sense strategy to meet the current and new challenges of 2009 and beyond.

In the fall of 2008, I announced that I will retire in mid-2009 as I turn 65. My banking career has spanned 40 years with the last 13 years leading and guiding ECB. It's time for someone else to take the helm.

In closing, I want to deeply thank our talented, caring employees, who continuously deliver the best quality services, suggestions and direction for our customers. The organization is also very grateful to our Board for their guidance and confidence in management. Lastly, my deepest thanks go to our shareholders for their prolonged support of our mission. I'll see you down the road.



**Arthur H. Keeney III**  
President and Chief Executive Officer  
March 23, 2009

# COMPANY INFORMATION

## CORPORATE OFFICERS

**Arthur H. Keeney III**  
*President and  
Chief Executive Officer*

**Gary M. Adams**  
*Senior Vice President  
Chief Financial Officer*

**B. Martelle Marshall**  
*Corporate Secretary*

### Annual Meeting

The Annual Shareholders' Meeting will be held Tuesday, April 21, 2009 at 11:00 a.m. at the Washington Civic Center, Washington, North Carolina.

### Headquarters

35050 US Highway 264  
PO Box 337  
Engelhard, NC 27824  
(252) 925-9411  
(252) 925-8491 (fax)  
E-mail: [ecbonline@ecbbancorp.com](mailto:ecbonline@ecbbancorp.com)

### Forward-Looking Statements

Statements in this report relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments, expectations or beliefs about future events or results, and other statements that are not descriptions of historical facts, may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, risk factors discussed in ECB Bancorp, Inc.'s (Bancorp) Annual Report on Form 10-K and in other documents filed by Bancorp with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "forecasts," "potential" or "continue," or similar terms or the negative of these terms, or other statements concerning opinions or judgments of Bancorp's management about future events. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of Bancorp's customers, actions of government regulators, the level of market interest rates, weather and similar conditions, particularly the effect of hurricanes on Bancorp's banking and operations facilities and on Bancorp's customers and the communities in which it does business, and changes in general economic conditions and the real estate values in our banking market (particularly changes that affect our loan portfolio), the abilities of our borrowers to repay their loans, and the values of loan collateral. Although Bancorp believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements. All forward-looking statements attributable to Bancorp are expressly qualified in their entirety by the cautionary statements in this paragraph. Bancorp has no obligations and does not intend to update these forward-looking statements.

### Annual Disclosure Statement/Form 10-K

Our annual shareholder report, annual disclosure statement and copies of ECB Bancorp Inc.'s Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained (without charge) by writing to Gary M. Adams, Senior VP and Chief Financial Officer at The East Carolina Bank, PO Box 337, Engelhard, NC 27824.

### Shareholder Account Inquiries

Shareholders needing information on stock-transfer requirements and lost certificates may write to The East Carolina Bank, PO Box 337, Engelhard, NC 27824, Attention: Corporate Secretary.

### Stock Transfer and Registrar

First-Citizens Bank & Trust Company  
Corporate Trust Division, DAC61  
PO Box 29522,  
Raleigh, NC 27626

### Independent Certified Public Accountants

Dixon Hughes PLLC  
Greenville, North Carolina

### Legal Counsel

Charles W. Ogletree  
Columbia, North Carolina

Ward and Smith, P. A.  
New Bern, North Carolina

### Bank Management Group

\***Arthur H. Keeney III**  
President and  
Chief Executive Officer

\***J. Dorson White, Jr.**  
Executive Vice President  
Chief Operating Officer

\***Gary M. Adams**  
Senior Vice President  
Chief Financial Officer

\***T. Olin Davis**  
Senior Vice President  
Chief Credit Officer

\***Thomas B. Heggie III**  
Senior Vice President  
Chief Risk Officer

**Mimi W. van Nortwick**  
Senior Vice President  
Marketing and Operations

**Jeffrey M. Buehler**  
Vice President  
Information Technology

**Edna H. Sukeforth**  
Vice President  
Operations

\*Denotes Policy-making Officers  
of the Bank

### Investment Banking Advisor

Keefe, Bruyette & Woods, Inc.  
New York, New York

### Regional Executives

ALBEMARLE REGION  
**Arthur R. "Buck" Spruill III**  
Senior Vice President  
Albemarle Region Manager

OUTER BANKS REGION  
**Richard N. "Skipper" Hines, Jr.**  
Senior Vice President  
Outer Banks Region Manager

PAMLICO REGION  
**Phillip O. Holloman**  
Senior Vice President  
Pamlico Region Manager

SOUTHEAST REGION  
**Edwin J. "Jerry" Brett**  
Senior Vice President  
Southeast Region Manager

WESTERN REGION  
**Donald K. Brinkley**  
Senior Vice President  
Western Region Manager

### Correspondent Banks

**Federal Home Loan Bank of Atlanta**  
Atlanta, Georgia

**Federal Reserve Bank of Richmond**  
Richmond, Virginia

**First-Citizens Bank & Trust Company**  
Raleigh, North Carolina

**FTN Financial**  
Memphis, Tennessee

**Pacific Coast Bankers' Bank**  
San Francisco, California

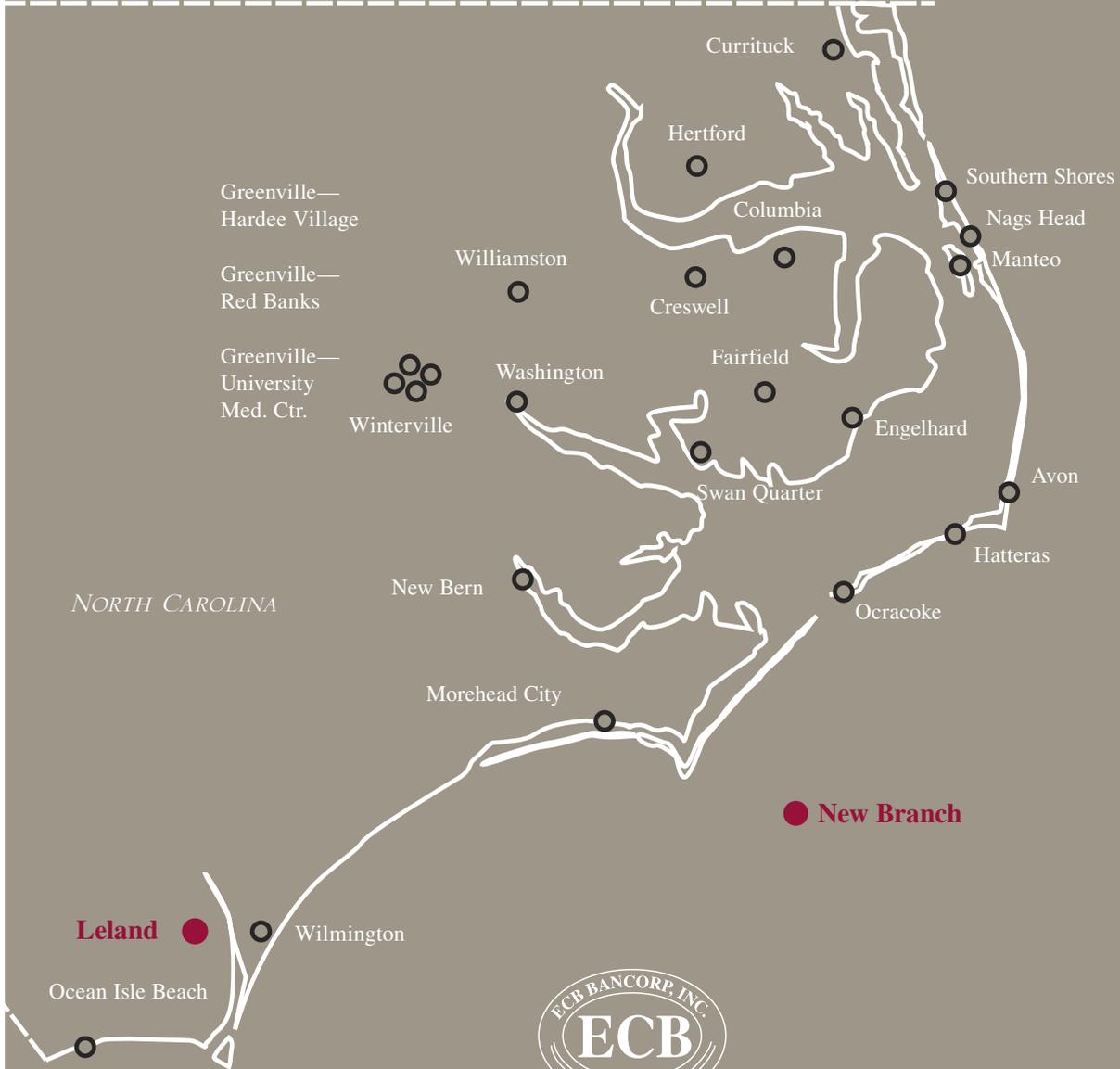
**Silverton Bank**  
Marietta, Georgia

**SunTrust Bank**  
Atlanta, Georgia

**Wachovia Bank & Trust Company**  
Charlotte, North Carolina

# LOCATIONS

VIRGINIA



NORTH CAROLINA

● **New Branch**



ECB BANCORP, INC.

[www.ecbbancorp.com](http://www.ecbbancorp.com)

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