

OUR COMMITMENT TO COMMUNITY

2004 ANNUAL REPORT

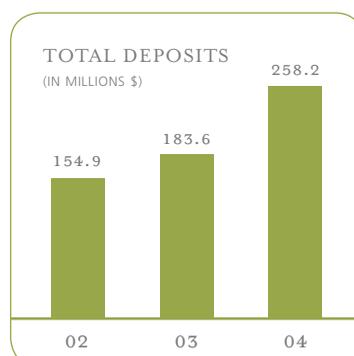
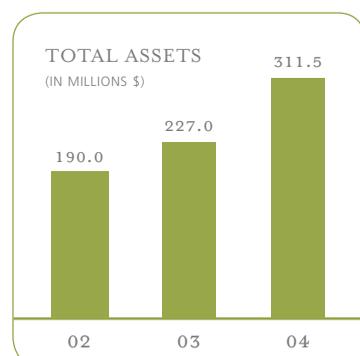


CAROLINA BANK
HOLDINGS, INC.

SELECTED FINANCIAL DATA

Years Ended December 31, (in thousands, except per share data)	2004	2003	2002
INCOME STATEMENT			
Net Interest Income	\$ 8,315	\$ 6,261	\$ 4,934
Provision for Loan Losses	769	692	685
Non-Interest Income	1,263	1,354	902
Non-Interest Expense	6,336	5,199	4,238
Net Income	1,633	1,150	601
PER SHARE DATA⁽¹⁾			
Net Income - Basic	\$ 0.73	\$ 0.52	\$ 0.47
Net Income - Diluted	0.71	0.51	0.46
Book Value at End of Period	9.37	8.70	8.28
BALANCE SHEET			
Total Assets	\$ 311,537	\$ 227,011	\$ 189,971
Total Deposits	258,155	183,569	154,878
Total Loans	223,470	172,575	133,045
Allowance for Loan Losses	2,808	2,150	1,661
Investment Securities	47,601	29,082	30,743
Total Earning Assets	295,822	213,183	179,662
Stockholders' Equity	21,120	19,564	18,345

⁽¹⁾ Per Share Data has been restated to reflect the impact of the 20% stock dividend issued in 2004.



“Carolina Bank had faith in us.”
“They helped us accomplish our mission.”
“We are so grateful for Carolina Bank.”

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It may be unusual to hear a bank described with words like those above, rather than numbers and percentages, but at Carolina Bank, we often hear those expressions — or others like them. It happens because we believe in people, not numbers. It’s a philosophy that has served us well. For us, it is doing well by doing good.



TO OUR SHAREHOLDERS

ROBERT T. BRASWELL
President and CEO

Each year, for the past few years, Carolina Bank has selected a “theme” for our annual report. Our most recent report focused on our staff and the outstanding performance each staff member demonstrates every day. This year, we have chosen to highlight the many local activities to which our staff donates both time and energy in striving to improve the quality of life in the communities we serve. We call this “doing well by doing good”.

Both financially and in serving our communities, Carolina Bank did well in 2004. Shortly after our 2004 earnings were released, our stock increased to historical highs, most recently reaching \$16.25 per share. An original shareholder, who has held onto his/her investment, would find that initial price of \$11.00 per share to be worth \$23.60 today, based on the stock price of \$16.25 and the stock dividends that have been paid since inception.

Additionally, the December 31, 2004 fiscal year-end showed Carolina Bank has reached an additional milestone with \$311,537,000 in total assets, 37% greater than the previous year. As in previous years, our profitability continues to be driven by solid net loan growth, up 30% to \$220,662,000. The Bank also had the largest annual increase in deposits, increasing 41% to \$258,155,000. The fact that the majority of the deposit increase came in core deposit growth, not from purchased funds, is most notable.

As in the past, the key to our success continues to be the performance of our loan portfolio. This past year, we were able to keep our loan losses to a minimum, less than \$115,000, and show a 30% growth in our portfolio, while maintaining the same Loan Loss Reserves. Since the inception of the Bank, the Bank has lost less than \$1,300,000. When we compare our Bank in the area of loan quality to our peers at the State, Regional, or National level, we continue to compare most favorably. Our staff is dedicated and deserves to be congratulated for their continued efforts.

In order to continue to grow and yet not dilute the value of our shares, we issued an additional \$7,000,000 in Trust Preferred Securities at year-end. In the process of closing this transaction, we also refinanced the \$3,000,000 in Trust Preferred Securities we already had. By doing so, a savings on that original Security of .95% in interest expense was gained, saving us nearly \$29,000 annually, if rates stayed the same. The \$10,000,000 Trust Preferred Security was done at very attractive rates and nominal cost to the Bank. Under Banking Regulations, this Security is treated as Tier I and Tier II Capital and will allow us to grow an additional \$90,000,000 without the benefit of retained earnings growth before we have need to consider other steps. Your Board and Management want to maintain the regulatory definition of a “Well Capitalized Bank”.

Last year we introduced SmartPay, our Internet based bill payment service, along with value added enhancements on several checking account products. The changes were well received and have benefited the bank resulting in a significant increase of activity on our website and an increase of 23% in personal checking accounts.

This year we will continue to introduce new and improved products to our customers. We are introducing Smart Choice Checking for personal checking account holders and Smart Business Checking for our small business customers. Both of these accounts provide free internet and bill pay service, two of our most popular products with no minimum balance requirements. These additions to our product offerings should make us even more competitive with the local market.

Lastly, this past year Carolina Bank partnered with nine other community banks and select private investors by investing in Community Trust Bank of the Southeast. The purpose of this investment was to provide our growing base of customers access to a trust bank sharing the same philosophy as its community bank investors. The Community Trust Bank will

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deliver superior service and not require an enormous sized estate or investment base in order to get personalized service. Should you have an interest in this service, please call your local Carolina Bank Office and allow one of our employees to schedule an appointment for you.

As you look through this Annual Report you will find ways that our staff contributes to the improvement of the communities we serve through one of its most precious commodities, their time. By serving our community in volunteer capacities, we hope to enrich not only the organizations for which we volunteer, but ourselves as well.

Thank you for the continued support you have shown to the Bank this past year. With the continued growth in our Bank and expected improvement to the economy, we are anticipating another solid year.

Sincerely,



ROBERT T. BRASWELL
President and Chief Executive Officer



JOHN D. "JAY" CORNET
Chairman of the Board

GREENSBORO SYMPHONY ORCHESTRA



NORTH CAROLINA ZOO



GIRL SCOUT TARHEEL TRIAD COUNCIL



DOING WELL BY DOING GOOD A CORPORATE PHILOSOPHY

Carolina Bank believes in doing well by doing good, a philosophy that has earned it a reputation for more than just exceptional business operations. As customers tell us, we've become a "go to" bank. Here's what some of them have to say.

"We just thank God for Carolina Bank," says Diane P. Brown of New Light Missionary Baptist Church in Greensboro. "We send anyone we know there. That's the bank to go to!"

Mrs. Brown and her husband, the Rev. Dr. Cardes H. Brown, Jr., approached Carolina Bank's president and CEO, Robert T.

The young women in the Girl Scout Tarheel Triad Council would certainly agree with Mrs. Brown. Because of the Carolina Bank "doing well by doing good" philosophy, more than 15,300 girls in 13 counties have a new Girl Scout Service Center for working, playing and learning on a beautiful, 92-acre campus in the heart of the Triad.

"Our girls deserve all we can provide to help them become strong, dependable and capable young women," says Marci L. Brown, the council's executive director and CEO. "Carolina Bank took the leap of faith and made a loan for us that made the project happen."

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Braswell, with a problem. The church was struggling with the expense of a high interest bond program. A banker herself for 25 years, Mrs. Brown knew that most banks wouldn't be willing to lend them the kind of money they needed to pay off the bond, but since they'd heard how Carolina Bank had made a difference for other churches and community organizations, they approached it.

Mrs. Brown says she was "elated that they had the faith in us" to make the church a loan. "They are super people. I have never met people that kind. Bob Braswell is one in a million."

Because of Carolina Bank, the church now has the money to spend on programs that help not just their 1500-member congregation, but the community at large. A day camp at the church provides safe, supervised activities for children to enjoy in the summer, everything from arts and crafts to swimming and field trips—even computer and etiquette classes.

"This is a safe haven for so many children," says Mrs. Brown. "Carolina Bank has very much been a part of our life."

It wasn't just funding that turned the Scouts' vision into reality. Vice Chairman of the Carolina Bank board of directors, Gary N. Brown, and his wife Patty made a personal pledge to the project's capital campaign with a lead gift of \$850,000. In addition, Gary and Patty are active volunteers with the Scouts, even helping to care for the grounds.

When he's not gardening for the Girl Scouts, you might find Gary Brown helping to beautify other areas in the community. He logged 800 volunteer hours last year for Greensboro Beautiful, a nonprofit organization dedicated to conserving and enhancing the beauty and ecology of the community. From offering hands-on help with tree plantings, chairing the Caldwell Park project, to serving on the organization's executive committee, he's described by Greensboro's City Beautiful Director Kathy Cates as being "the best—he's great!"

(Opposite page) North Carolina Zoo photo by Diane Villa

Joining Brown to keep the “green” in Greensboro are others from Carolina Bank: Ross Geller, vice president and commercial branch manager at the Highwoods Boulevard office, is treasurer of the organization, while Virginia Grimes, senior vice president, is past treasurer. Mercer Oast, vice president, is also an active volunteer, while CEO Bob Braswell served on the Gardens and Gateways campaign cabinet.

the support of the North Carolina Zoo, consistently named one of the finest zoos in the country.

Even before the new branch opened, Johnson rolled up his sleeves to help with major fundraisers like the Zoo To Do dinner and auction, chairing the NC Zoo Society’s finance committee and serving as a member of the steering committee.

We want to be the “go-to bank” for our customers and our community. We think that is exactly the right philosophy for our bank.

Describing Carolina Bank’s “corporate desire to make our community beautiful,” Braswell says it’s only natural that the bank and its personnel have embraced the mission of Greensboro Beautiful.

While Greensboro Beautiful aims to create visual beauty in the city, the Greensboro Symphony Orchestra creates a different kind of beauty, and again Carolina Bank is deeply involved. Robert Braswell is president-elect of the board of directors and a member of the marketing and financial development committees. In addition, the bank is a longtime corporate sponsor of the Masterworks Series.

Besides classical and pops concerts, the symphony presents educational concerts for more than 50,000 students each season. Braswell views the bank’s support of the symphony as yet another way to improve the quality of life for area citizens, while providing education and enrichment to youth. “We recognize the importance of the arts to our community and know that our contributions enhance the lives of more than 100,000 adults and children each year.”

Enrichment opportunities of a different sort are available in Asheboro, home to Carolina Bank’s newest community branch. There, senior vice president Duffy Johnson plays a major role in

“Carolina Bank wasn’t even in town yet and already had a presence in the community,” says Russ Williams, the Zoo Society’s executive director. “Even before there was a building with ‘Carolina Bank’ on it, they were helping us with community projects.”

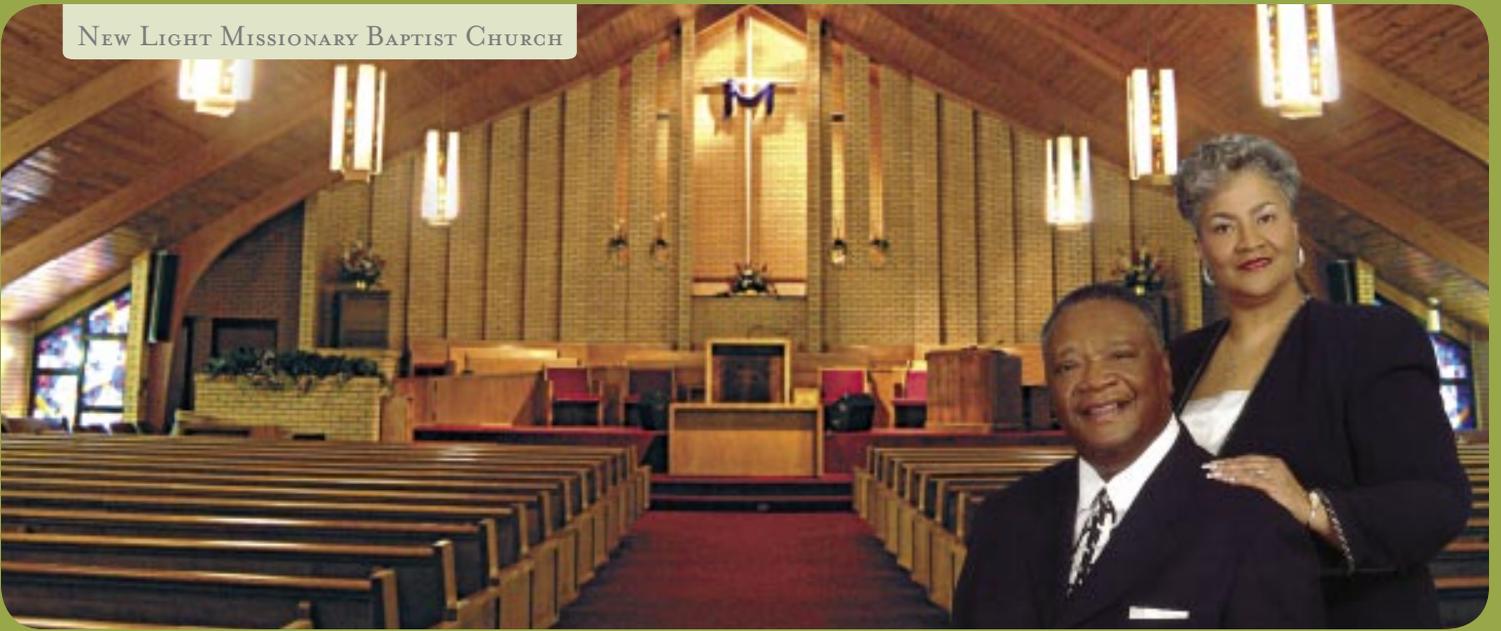
The zoo draws 700,000 visitors a year to the area, contributing to its economic growth. Helping to assure that development is the Asheboro/Randolph Chamber of Commerce and, once again, Duffy Johnson is fully involved—earning the Chamber’s 2004 Volunteer of the Year award. Describing Duffy as “an individual who has demonstrated exemplary commitment to the Chamber and the community,” he was cited as the “driving force” behind the success of the Black Tie Affair fundraiser to support student leadership programs.

Says Chamber president George Gusler, “Ever since Carolina Bank opened its first office in this community, it has been an avid supporter of virtually everything we’ve done. It has supported construction projects in Asheboro and has been a significant part of the economic growth of the community.” Gusler also switched to Carolina Bank for his personal banking, adding, “Everyone there is a real pleasure to deal with.”

We work hard to be “a real pleasure to deal with”. We want to be the “go-to bank” for our customers and our community. We think that is exactly the right philosophy for our bank.

(Opposite page) Greensboro Beautiful photo by Kathy Cates

NEW LIGHT MISSIONARY BAPTIST CHURCH



ASHEBORO CHAMBER OF COMMERCE



GREENSBORO BEAUTIFUL – BOG GARDEN





PRODUCTS & SERVICES

PRODUCTS AND SERVICES

Carolina Bank is the Smart Choice in Banking for both individuals and businesses, due in no small part to the extensive selection of banking products and services that are offered. Carolina is dedicated to providing new and innovative products to provide our customers the ability to efficiently handle all banking needs without unnecessary fees and restrictions.

Carolina Bank has always provided account access through the use of foreign ATMs at no cost to our customers. This past year Carolina Bank went live with SmartPay, an internet bill paying program, which is also provided at no cost to our customers. These are just two of the many ways Carolina Bank provides efficient banking at a great value.

PERSONAL BANKING

This past year Carolina Bank provided value-added enhancements to both the Carolina Club Checking and Premier Checking at no cost to the customer. The additional benefits included free discount programs, payment card protection, accident insurance, and personal identity protection. In addition to these benefits, the Platinum Checking added both Prescription Drug and Discount Card Program and a Vision/Hearing Savings Program.

In January of 2005, Smart Choice Checking was introduced to provide an additional checking account choice for those individuals who would rather invest money in things other than maintaining minimum balance requirements. Smart

Choice Checking requires no balances to be maintained, does not charge a monthly maintenance fee and you only pay for your checks.

CheckGuard, which was introduced in 2003, pays your check even if you overdraw your account.

COMMERCIAL CHECKING

Carolina Bank provides a variety of checking accounts for commercial customers, thus allowing the business to select the product that most effectively meets the customer's needs based on the types and volumes of transactions that a business requires. In early 2005, still another account, Smart Business Checking, was created to fulfill a need that became evident for our small to medium size customers. This account requires no minimum balances to be maintained and is developed completely around the activity on the account.

Other commercial services provided free for commercial customers include SmartBanker I Telephone Banking, SmartBanker II Online Banking, and SmartPay – Internet Bill Pay. These services provide the customer 24/7 access to account balances, account activity and the ability to transfer funds between Carolina Bank accounts.

LOANS

Need a home loan, or a way to pay college tuition? Carolina Bank offers these loans and many more. Loans for business expansion, for debt consolidation, or for just plain fun as with a car or boat loan, are all available here.

The lending professionals at Carolina Bank will assist each customer individually to determine the best way to provide for that customer's needs. With local decision making and extremely experienced officers, customized lending solutions are always provided in a speedy manner.

INVESTMENT SERVICES

Whether you are an "empty nester" and the last child has left home, or celebrating the birth of your first child, Carolina Bank will provide the investment or combination of investments that suits each particular situation and is designed to help the customer attain their goals. A free financial analysis is available simply for the asking. Both standard banking

products and other products offered through Carolina Bank Investment Services, in conjunction with UVEST Financial Services, can be used to find just the mix of products for each situation.

COMMUNITY TRUST BANK OF THE SOUTHEAST

Carolina Bank has invested in and acquired the services of Community Trust Bank of the Southeast. When you need to secure your retirement; avoid costly estate taxes; create a legacy of charitable giving; maximize what your heirs receive; take care of family finances in case of death or incapacitation, simply call Carolina Bank and schedule your appointment with a experienced and skilled Trust Officer.

Whether you choose product selection, the experienced staff and the value priced products; Carolina Bank is the Smart Choice in banking.



CONSOLIDATED BALANCE SHEETS

December 31,	2004	2003
(in thousands)		
ASSETS		
Cash and due from banks	\$ 2,873	\$ 3,503
Federal funds sold	25,536	11,817
Securities available-for-sale, at fair value	43,035	23,719
Securities held-to-maturity, (market value of \$4,514 in 2004 and \$5,324 in 2003)	4,566	5,363
Loans	223,470	172,575
Less allowance for loan losses	(2,808)	(2,150)
Net loans	220,662	170,425
Premises and equipment, net	6,588	6,131
Other assets	8,277	6,053
Total assets	\$ 311,537	\$ 227,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing demand	\$ 18,416	\$ 21,374
NOW, money market and savings	87,968	48,911
Time	151,771	113,284
Total deposits	258,155	183,569
Securities sold under agreements to repurchase	2,472	3,516
Advances from the Federal Home Loan Bank	18,368	15,934
Junior subordinated debentures	10,310	3,100
Other liabilities and accrued expenses	1,112	1,328
Total liabilities	290,417	207,447
Stockholders' equity		
Common stock, \$1 par value; authorized 20,000,000 shares; issued and outstanding 2,252,739 in 2004 and 1,873,563 in 2003	2,253	1,874
Additional paid-in capital	15,896	16,241
Retained earnings	3,004	1,371
Accumulated other comprehensive income	(33)	78
Total stockholders' equity	21,120	19,564
Commitments (note 12)		
Total liabilities and stockholders' equity	\$ 311,537	\$ 227,011

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	2004	2003	2002
(in thousands, except per share data)			
Interest income			
Loans	\$ 11,325	\$ 8,508	\$ 7,577
Investment securities, taxable	1,292	1,245	1,403
Interest from federal funds sold	141	79	74
Other	17	12	31
Total interest income	12,775	9,844	9,085
Interest expense			
NOW, money market, savings	658	704	1,097
Time deposits	3,220	2,392	2,496
Other borrowed funds	582	487	558
Total interest expense	4,460	3,583	4,151
Net interest income	8,315	6,261	4,934
Provision for loan losses	769	692	685
Net interest income after provision for loan losses	7,546	5,569	4,249
Non-interest income			
Service charges	784	761	534
Mortgage banking income	243	409	276
Securities gains, net	-	53	20
Repossessed asset losses and writedowns	-	(153)	(29)
Other	236	284	101
Total non-interest income	1,263	1,354	902
Non-interest expense			
Salaries and benefits	3,270	2,826	2,267
Occupancy and equipment	816	726	596
Professional fees	638	393	337
Outside data processing	452	357	262
Advertising and promotion	305	191	215
Stationary, printing and supplies	334	280	246
Other	521	426	315
Total non-interest expense	6,336	5,199	4,238
Income before income taxes	2,473	1,724	913
Income tax expense	840	574	312
Net income	\$ 1,633	\$ 1,150	\$ 601
Net income per common share			
Basic	\$ 0.73	\$ 0.52	\$ 0.47
Diluted	\$ 0.71	\$ 0.51	\$ 0.46

Net income per share amounts have been restated to reflect the impact of the 20% stock dividend issued in 2004.



CORPORATE DATA

BOARD OF DIRECTORS – Carolina Bank Holdings, Inc.

Front Row, Left to Right: Marlene H. Cato; George E. Carr, III; Julius L. Young; John D. Cornet, *Chairman*; Judy H. Fuller

Back Row, Left to Right: J. Alexander S. Barrett; T. Gray McCaskill; Robert T. Braswell, *President & CEO*; Kenneth C. Mayer, Jr.; James E. Hooper; Gary N. Brown, *Vice Chairman*

Not Pictured: Edward A. Hoyle, *Vice Chairman*

ASHEBORO BOARD OF DIRECTORS

Donald H. Allred
 Vickie H. Gallimore
 David R. Renfro
 D. Wayne Thomas
 John O.H. Toledana, Jr.

OFFICERS – Carolina Bank

Robert T. Braswell	President & CEO
T. Allen Liles	Executive Vice President & CFO
Gunnar N.R. Fromen	Executive Vice President
F. Virginia Grimes	Senior Vice President
Daniel D. Hornfeck	Senior Vice President
W. McDuffy Johnson	Senior Vice President
Paul L. Kennedy	Senior Vice President
J. Ross Geller	Vice President
Wayne J. Handy	Vice President
C. Mercer Oast	Vice President
W. Bryan Phillips	Vice President
Nicole Sammons	Vice President
Pamela W. Sparks	Vice President
Peter V. Vanstory	Vice President
Sharon A. Williams	Vice President
W. Thomas Wray	Vice President
Gail S. Brady	Assistant Vice President
Marion Lyndon	Assistant Vice President
Angela J. Nowlin	Human Resources Officer
Cindi H. Welker	Compliance Officer
Jessica Gourley	Information Technology Officer

INDEPENDENT AUDITORS

Cherry, Bekaert & Holland, L.L.P.
 100 South Elm Street, Suite 500
 Greensboro, North Carolina 27401

SPECIAL COUNSEL

Gaeta & Glesener, P.A., Attorneys at Law
 808 Salem Woods Drive, Suite 201
 Raleigh, North Carolina, 27615

NOTICE OF ANNUAL MEETING

The Annual Meeting of the shareholders of Carolina Bank Holdings, Inc. will be held on April 19, 2005 at 4:00 p.m. at the Painted Plate in Greensboro, North Carolina.

FORM-10KSB

A copy of Carolina Bank Holdings, Inc.'s Annual Report, Form 10-KSB, as filed with the Securities and Exchange Commission, will be furnished without charge to the stockholders as of the record date, upon written request to Robert T. Braswell, President, Carolina Bank, P.O. Box 10209, Greensboro, North Carolina 27404.

