CLBH 10-Q 9/30/2008

Section 1: 10-Q (FORM 10-Q)

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 000-31877

Carolina Bank Holdings, Inc.
(Exact name of registrant as specified in its charter)

North Carolina **(State or other jurisdiction of incorporation or organization)**	**56-2215437** **(I.R.S. Employer Identification No.)**
101 North Spring Street, Greensboro, North Carolina **(Address of principal executive offices)**	**27401** **(Zip Code)**

(336) 288-1898
(Registrant's telephone number, including area code)

528 College Road, Greensboro, NC 27410
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. There were 3,348,193 shares of the Issuer’s common stock, $1.00 par value, outstanding as of November 6, 2008.

Table of Contents

CAROLINA BANK HOLDINGS, INC.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

Carolina Bank Holdings, Inc. and Subsidiary
Consolidated Balance Sheets

	September 30, 2008 (unaudited)	December 31, 2007
	(in thousands)	
Assets		
Cash and due from banks	$ 10,726	$ 5,022
Federal funds sold	2,633	—
Securities available-for-sale, at fair value	55,894	59,304
Securities held-to-maturity	1,156	3,133
Loans held for sale	15,023	11,869
Loans	477,298	400,784
Less allowance for loan losses	(5,454)	(4,532)
Net loans	471,844	396,252
Premises and equipment, net	19,401	13,792
Other assets	14,687	10,744
Total assets	$ 591,364	$ 500,116
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing demand	$ 27,190	$ 30,491
NOW, money market and savings	173,630	163,177
Time	264,149	224,905
Total deposits	464,969	418,573
Advances from the Federal Home Loan Bank	56,659	31,581
Federal funds purchased	8,999	2,650
Securities sold under agreements to repurchase	6,276	3,452
Subordinated debentures	19,246	10,310
Other liabilities and accrued expenses	3,858	3,910
Total liabilities	560,007	470,476
Commitments		
Stockholders' equity		
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding 3,348,193 in 2008 and 3,315,157 in 2007	3,348	3,315
Additional paid-in capital	15,556	15,379
Retained earnings	12,713	10,875
Stock in directors rabbi trust	(644)	(524)
Directors deferred fees obligation	644	524
Accumulated other comprehensive income (loss)	(260)	71
Total stockholders' equity	31,357	29,640
Total liabilities and stockholders' equity	$ 591,364	$ 500,116

See accompanying notes to consolidated financial statements.

Table of Contents

Carolina Bank Holdings, Inc. and Subsidiary
Consolidated Statements of Income (unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in thousands, except per share data)			
Interest income				
Loans	$ 7,209	$ 7,526	$ 21,474	$ 21,560
Investment securities, taxable	655	787	2,079	2,426
Investment securities, non taxable	98	43	269	62
Interest from federal funds sold	7	61	27	186
Other	1	23	2	30
Total interest income	7,970	8,440	23,851	24,264
Interest expense				
NOW, money market, savings	1,123	1,681	3,312	5,218
Time deposits	2,445	2,745	7,943	7,289
Other borrowed funds	542	387	1,460	1,128
Total interest expense	4,110	4,813	12,715	13,635
Net interest income	3,860	3,627	11,136	10,629
Provision for loan losses	350	272	1,205	742
Net interest income after provision for loan losses	3,510	3,355	9,931	9,887
Non-interest income				
Service charges	248	191	654	544
Mortgage banking income	643	76	2,045	200
Securities gains	—	(1)	227	(1)
Other	143	120	386	341
Total non-interest income	1,034	386	3,312	1,084
Non-interest expense				
Salaries and benefits	1,948	1,401	5,629	3,964
Occupancy and equipment	451	351	1,250	958
Professional fees	262	140	945	511
Outside data processing	192	144	530	444
Advertising and promotion	126	113	424	355
Stationery, printing and supplies	107	114	374	340
Impairment of non-marketable securities	—	—	—	100
Other	348	196	975	560
Total non-interest expense	3,434	2,459	10,127	7,232
Income before income taxes	1,110	1,282	3,116	3,739
Income tax expense	406	482	1,102	1,401
Net income	$ 704	$ 800	$ 2,014	$ 2,338
Net income per common share				
Basic	$ 0.21	$ 0.24	$ 0.60	$ 0.72
Diluted	$ 0.21	$ 0.24	$ 0.59	$ 0.69

See accompanying notes to consolidated financial statements.

Carolina Bank Holdings, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands)			
Net income	$ 704	$ 800	$ 2,014	$ 2,338
Other comprehensive income:				
Unrealized holding gains (losses) arising during the period, net of income taxes	(108)	466	(331)	106
Comprehensive income	$ 596	$ 1,266	$ 1,683	$ 2,444

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

Carolina Bank Holdings, Inc. and Subsidiary
Consolidated Statements of Cash Flows (unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in thousands)	
Cash flows from operating activities		
Net income	$ 2,014	$ 2,338
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Provision for loan losses	1,205	742
Depreciation	437	350
Deferred income tax (benefit) expense	(382)	(87)
Impairment of non-marketable securities	—	100
Amortization (accretion), net	(48)	(48)
(Gain) on sale of assets	(14)	(9)
(Gain) on sale of investment securities	(227)	—
Origination of loans held for sale, net of sales and gains	(3,154)	(1,998)
Increase in other assets	(3,952)	(244)
Increase (decrease) in accrued expenses and other liabilities	(228)	952
Net cash provided by (used for) operating activities	(4,349)	2,096
Cash flows from investing activities		
Purchases of investment securities available-for-sale	(6,902)	(11,912)
Maturities and calls of securities available-for-sale	3,584	11,063
Maturities and calls of securities held-to-maturity	1,800	—
Repayments from mortgage-backed securities available-for-sale	6,190	6,050
Repayments from mortgage-backed securities held-to-maturity	174	373
Origination of loans, net of principal collected	(77,049)	(57,217)
Additions to premises and equipment	(6,046)	(2,081)
Proceeds from sales of assets	1,142	15
Net cash (used for) investing activities	(77,107)	(53,709)
Cash flows from financing activities		
Net increase in deposits	46,396	48,679
Net increase (decrease) in Federal Home Loan Bank Advances	25,078	(320)
Net increase in Federal funds purchased	6,349	4,096
Increase in securities sold under agreements to repurchase	2,824	770
Net proceeds from issuance of subordinated debt	8,936	—
Proceeds from exercised stock options	210	114
Net cash provided by financing activities	89,793	53,339
Net increase in cash and cash equivalents	8,337	1,726
Cash and cash equivalents at beginning of period	5,022	4,983
Cash and cash equivalents at end of period	$ 13,359	$ 6,709
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$ 13,322	$ 13,237
Cash paid during the period for income taxes	$ 2,115	$ 1,158
Supplemental disclosure of non-cash transactions		
Transfer of loans to foreclosed assets	$ 251	$ 190

See accompanying notes to consolidated financial statements.

Table of Contents

Carolina Bank Holdings, Inc. and Subsidiary
Notes to Consolidated Financial Statements

Note A – Summary

Carolina Bank Holdings, Inc. (the “Company”) is a North Carolina corporation organized in 2000. On August 17, 2000 pursuant to the plan of exchange approved by the shareholders of Carolina Bank (the “Bank”), all of the outstanding shares of common stock of the Bank were exchanged for shares of common stock of the Company. The Company presently has no employees.

The Bank was incorporated on August 20, 1996, and began banking operations on November 25, 1996. It is engaged in lending and deposit gathering activities in Guilford, Alamance and Randolph Counties, North Carolina and operates under the laws of North Carolina, the Rules and Regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank has four retail locations in Greensboro, and an office in Asheboro, Burlington, and High Point. A loan production office was opened in Winston-Salem in February 2008. The corporate headquarters is also located in Greensboro.

The Holding Company files periodic reports with the Securities and Exchange Commission and is also subject to regulation by the Federal Reserve Board.

Note B – Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant inter-company transactions and balances have been eliminated.

Note C – Basis of Presentation

In management’s opinion, the financial information, which is unaudited, reflects all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the financial information as of and for the three and nine months ended September 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America. Operating results for the three and nine months ended September 30, 2008 and 2007, are not necessarily indicative of the results that may be expected for future periods.

The organization and business of the Company, accounting policies followed, and other information are contained in the notes to the financial statements of the Company as of and for the years ended December 31, 2007 and 2006, filed with the Securities and Exchange Commission as part of the Company’s annual report on Form 10-K. These financial statements should be read in conjunction with the annual financial statements.

Note D – Use of Estimates

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Table of Contents

Note E – Stock Compensation Plans

The Company has three stock option plans, a nonqualified plan for directors (Director Plan) and two incentive stock option plans for management and employees (Employee Plans). Both plans provide for the issuance of options to purchase common shares of the Company. For both plans, the exercise price of each option is equal to the fair value of the common stock on the date of grant.

The Company adopted SFAS No. 123R, *Share-Based Payment*, in 2006. There were no stock grants in the first nine months of 2008. The fair value of employee plan options granted in December 2007 was $178,000, which is being expensed over a five year vesting period. Total expense related to the 2007 grants was $9,000 and $27,000 for the three and nine months ending September 30, 2008, respectively. At September 30, 2008, there was $148,000 of total unrecognized compensation cost related to unvested share-based compensation which is expected to be recognized over a weighted-average period of 4.2 years.

Note F – Earnings per Share

Earnings per share has been determined under the provisions of the SFAS No. 128, *Earnings Per Share*. For the quarters ended September 30, 2008 and 2007, basic earnings per share has been computed based upon the weighted average common shares outstanding of 3,343,818 and 3,273,806, respectively.

The only potential stock of the Company as defined in the SFAS No. 128, Earnings Per Share, is stock options granted to various directors and officers of the Bank. The following is a summary of the diluted earnings per share calculation for the three and nine months ended September 30, 2008 and 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands, except per share data)			
Net income	$ 704	$ 800	$ 2,014	$ 2,338
Weighted average outstanding shares	3,344	3,274	3,343	3,269
Dilutive effect of stock options	24	118	50	135
Weighted average diluted shares	3,368	3,392	3,393	3,404
Diluted earnings per share	$ 0.21	$ 0.24	$ 0.59	$ 0.69

Note G – Stock Split

The Company issued a 6-for-5 stock split effected in the form of a 20% stock dividend in June 2007. All per share amounts have been adjusted to retroactively reflect the stock split.

Table of Contents

Note H – Impairment of Non-Marketable Equity Securities

Investments are periodically evaluated for any impairment which would be deemed other than temporary. During the second quarter of 2007, we determined that the fair value of an investment in an investment asset company was less than the original cost and that the decline was other than temporary. The original investment of $305,000 was written down $100,000 to $205,000 by an impairment charge against second quarter 2007 earnings. The trust company has a common director with the Company.

Note I – Subordinated Debentures

In December 2004, the Company issued $10,310,000 of unsecured junior subordinated debentures which carries a floating rate of three month LIBOR plus 2%. The proceeds from the sale of the debentures were used to repay $3,100,000 of unsecured junior subordinated debentures which were issued in March 2001 and were used to fund loan growth. These debentures were issued to Carolina Capital Trust ("Carolina Trust"), a wholly owned subsidiary of the Company which is not consolidated in these financial statements pursuant to FIN 46R. Carolina Trust acquired these debentures using the proceeds of its offerings of common securities to the Company and $10 million of Trust Preferred Securities to outside investors. The Trust Preferred Securities qualify as Tier 1 capital under the Federal Reserve Board guidelines and accrue and pay distributions quarterly. The Company has entered into contractual arrangements, which in the aggregate, constitute a full, irrevocable and unconditional guarantee on a subordinated basis by the company of the obligations of Carolina Trust under the Trust Preferred Securities. The Trust Preferred Securities are redeemable upon maturity of the debentures on January 7, 2035, or at the election of the Company on or after January 7, 2010.

In the third quarter of 2008, the Bank issued $9,300,000 of subordinated debentures which carry a floating rate of three month LIBOR plus 4%. The net proceeds of the debentures of $8,936,000 were used to fund loan growth. The subordinated debentures mature on September 30, 2018 and may be redeemed at par at the Bank's option beginning September 30, 2013, subject to regulatory approval. The subordinated debentures qualify as Tier 2 capital for the first five years. Inclusion in Tier 2 capital is gradually phased out over the remaining five years.

Note J – Operating segments

The Financial Accounting Standards Board ("FASB") issued Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, in September 1997, which established standards for the way public business enterprises report information about operating segments. The Company is considered to have two principal business segments in 2008, the Commercial/Retail Bank and the Wholesale Mortgage Division. The Wholesale Mortgage Division began originating home mortgage loans through third parties and selling these loans to investors in late 2007. The Company had only one operating segment in the first nine months of 2007. Financial performance for the three and nine months ending September 30, 2008 and selected balance sheet information for the periods then ended for each segment is as follows:

	Three months ending 9/30/2008			Nine months ending 9/30/2008		
	Commercial/Retail Bank	Wholesale Mortgage Div.	Total	Commercial/Retail Bank	Wholesale Mortgage Div.	Total
	(in thousands)			(in thousands)		
Interest income	$ 7,820	$ 150	$ 7,970	$ 23,253	$ 598	$ 23,851
Interest expense	3,983	127	4,110	12,251	464	12,715
Net interest income	3,837	23	3,860	11,002	134	11,136
Provision for loan losses	350	—	350	1,205	—	1,205
Net interest income after provision for loan losses	3,487	23	3,510	9,797	134	9,931
Non-interest income	429	605	1,034	1,523	1,789	3,312
Non-interest expense	2,955	479	3,434	8,900	1,227	10,127
Income before income taxes	961	149	1,110	2,420	696	3,116
Income tax expense	349	57	406	831	271	1,102
Net income	$ 612	$ 92	$ 704	$ 1,589	$ 425	$ 2,014
Total Assets	$ 576,132	$ 15,232	$591,364	$ 576,132	$ 15,232	$591,364
Net loans	471,844	15,023	486,867	471,844	15,023	486,867
Equity	30,673	684	31,357	30,673	684	31,357

Note K – Impact of Recently Issued Accounting Standards

In September 2006, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements, which requires employers to recognize a liability for endorsement split-dollar life insurance arrangements that provide post retirement benefits to employees. The provisions of this Issue were effective for fiscal years beginning after December 15, 2007, and the Company implemented this Issue on January 1, 2008 by a cumulative-effect adjustment to retained earnings of $176,000. An additional $19,000 of liability and related expense was recorded by the Company for endorsement split-dollar life insurance arrangements during the first nine months of 2008.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115. This standard allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement of 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. This statement is effective for fiscal years beginning after November 15, 2007 with earlier adoption permitted under special rules. The adoption of this statement did not have a material impact on the consolidated financial statements of the Company.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133. The statement requires enhanced disclosures about an entity's derivative and hedging activities to improve the transparency of financial reporting. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this statement is not expected to have a material impact on the consolidated financial statements of the Company.

In December 2007, the FASB issued SFAS No. 141 R, Business Combinations, which requires an acquirer in a business combination to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Relevance, completeness, and representation faithfulness of the information provided in financial reports about the assets acquired and liabilities assumed in a business combination are improved with implementation of this statement. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The effective date of this statement is the same as that of related SFAS No. 160. The adoption of this statement is not expected to have a material impact on the consolidated financial statements of the Company.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statement ,which improves the relevance, comparability, and transparency of financial information provided to investors by requiring entities to report noncontrolling, minority, interests in subsidiaries as equity in the consolidated financial statements. This effective date of this statement is the same as SFAS No. 141R. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The adoption of this statement is not expected to have a material impact on the consolidated financial statements of the Company.

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, which provides a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. SFAS defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company has not elected the fair value option to value liabilities. Securities available-for-sale and loans held for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

When measuring fair value, valuation techniques should be appropriate in the circumstances and consistently applied. A hierarchy is used to prioritize valuation inputs into the following three levels to determine fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – observable inputs other than the quoted prices included in Level 1.

Level 3 – unobservable inputs.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

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 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 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans Held for Sale

Loans held for sale are carried at fair value which is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies loans subjected to recurring fair value adjustments as Level 2. Loans held for sale of $15.0 million included a positive $83,800 fair value adjustment at September 30, 2008.

Loans

The Company 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 value of similar debt, enterprise value, liquidation value 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 September 30, 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 Company 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 Company records the impaired loan as nonrecurring Level 3. Impaired loans totaled $2.9 million at September 30, 2008. Of such loans, $2.9 million had specific loss allowances aggregating $723,000 at that date.

Foreclosed Assets

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset 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 Company records the foreclosed asset as nonrecurring Level 3. There were no fair value adjustments related to foreclosed real estate of $0.4 million at September 30, 2008.

Assets measured at fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option, are summarized below.

	September 30, 2008			
	Fair Value Measurement Using			Assets at
	Level 1	Level 2	Level 3	Fair Value
		(in thousands)		
Assets				
Loand held for sale	$ —	$15,023	$ —	$ 15,023
Securities available-for-sale	428	55,466	—	55,894
Total assets	$ 428	$70,489	$ —	$ 70,917

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in understanding our financial condition and results of operations. Because we have no material operations and conduct no business on our own other than owning our subsidiaries, Carolina Bank and Carolina Capital Trust, and because Carolina Capital Trust has no operations other than the issuance of its trust preferred securities, the discussion contained in this Management's Discussion and Analysis concerns primarily the business of Carolina Bank. However, for ease of reading and because the financial statements are presented on a consolidated basis, Carolina Bank Holdings, Inc. and Carolina Bank are collectively referred to herein as "we", "our" or "us" unless otherwise noted.

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 relating to, without limitation, our future economic performance, plans and objectives for future operations, and projections of revenues and other financial items that are based on our beliefs, as well as assumptions made by and information currently available to us. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "could", "project", "predict," "expect," "estimate," "continue," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. Our actual results, performance, or achievements may differ materially from the results expressed or implied by our forward-looking statements.

Comparison of Financial Condition

Assets. Our total assets increased by $91.2 million, or 18.3%, from $500.1 million at December 31, 2007, to $591.4 million at September 30, 2008. During the nine month period ended September 30, 2008, cash and due from banks and Federal funds sold increased by $8.3 million to $13.4 million, and investment securities decreased by $5.4 million to $57.1 million. Loans held for sale increased by 26.6% to $15.0 million at September 30, 2008. Loan demand was stronger than projected as loans before allowance for loan losses increased by $76.5 million or 19.1% during the first nine months of 2008. Approximately 84.8 % of our loans are secured by real estate which is up slightly from 81.9% secured by real estate at December 31, 2007. A loan production office was opened in leased facilities in Winston-Salem during the first quarter of 2008. Our new corporate headquarters in downtown Greensboro was completed in the third quarter of 2008 and replaced our College Road facility which is for sale. The new headquarters of approximately 40,000 square feet contains a retail and commercial banking office in addition to operations and executive offices along with a vacant floor for lease.

Liabilities. Total deposits increased by $46.4 million, or 11.1%, from $418.6 million at December 31, 2007, to $465.0 million at September 30, 2008. NOW, money market and savings increased $10.5 million and time deposits were up $39.2 million during the first nine months of 2008. We plan to continue our efforts to gain deposits through quality service, convenient locations, and competitive pricing. Our continued branching activities are designed to enhance customer convenience and related deposit gathering activities as well as provide new sources for loans. While deposit growth is an ongoing goal, wholesale sources of funding such as Federal Home Loan Bank advances and repurchase borrowings, may be utilized where cost beneficial and when necessary to meet liquidity requirements. Federal Home Loan Bank advances increased $25.1 million during the first nine months of 2008 to $56.7 million at September 30, 2008. We had approximately $39.8 million in out-of-market time deposits from other institutions and $12.3 million in brokered time deposits at September 30, 2008, an increase of $9.8 million in these two types of accounts from December 31, 2007. The Bank issued $9.3 million in subordinated debt during the third quarter and used the net proceeds of $8.9 million to fund loan growth. The net proceeds from the subordinated debt qualify as Tier 2 regulatory capital and can support future asset growth.

Stockholders' Equity. Total stockholders' equity was up $1.7 million at September 30, 2008 to $31.4 million from $29.6 million at December 31, 2007 due primarily to retention of net income.

Comparison of Results of Operations for the Three Months Ended September 30, 2008 and 2007

General. Net income for the three months ended September 30, 2008 and 2007, amounted to $704,000, or $0.21 per diluted share and $800,000, or $0.24 per diluted share, respectively. The decrease in net income was primarily due to an increase in our provision for loan losses and higher non-interest expense.

Net interest income. Net interest income was $3,860,000 for the three months ended September 30, 2008, an increase of 6.4% from the same quarter in 2007. Growth in interest earning assets and liabilities accounted for the higher net interest income in 2008. The net yield on interest earning assets, adjusted to a fully taxable basis, declined to 2.86% in the third quarter of 2008 from 3.31% in the third quarter of 2007 due to the decline in interest rates over the past year. The table below provides an analysis of effective yields and rates on categories of interest-earning assets and interest-bearing liabilities for the three months ended September 30, 2008 and 2007.

Table of Contents

Net Interest Income and Average Balance Analysis

	For the Three Months Ended September 30,					
	2008			2007		
	Average Balance (1.)	Interest Inc./Exp.	Average Yield/Cost	Average Balance (1.)	Interest Inc./Exp.	Average Yield/Cost
	(Dollars in thousands)					
Interest-earning assets						
Interest bearing deposits	$ 128	$ 1	3.10%	$ 1,736	$ 23	5.30%
Federal funds sold	1,668	7	1.66%	5,136	61	4.75%
Non-taxable investments (2.)	9,078	142	6.21%	3,993	61	6.11%
Taxable investments	50,006	655	5.20%	65,378	787	4.82%
Loan held for sale	9,621	150	6.19%			
Loans (3.)	470,730	7,059	5.95%	363,801	7,526	8.27%
Interest-earning assets	541,231	8,014		440,044	8,458	
Interest-earning assets			5.87%			7.69%
Non interest-earning assets	30,710			18,454		
Total assets	$ 571,941			$ 458,498		
Interest-bearing liabilities						
Interest checking	$ 26,217	60	0.91%	$ 14,702	$ 54	1.47%
Money market and savings	154,305	1,063	2.73%	143,703	1,627	4.53%
Time certificates and IRAs	247,150	2,445	3.92%	212,990	2,745	5.16%
Other borrowings	78,259	542	2.75%	26,449	387	5.85%
Total interest-bearing liabilities	505,931	4,110		397,844	4,813	
Cost on average						
Interest-bearing liabilities			3.22%			4.84%
Non-interest-bearing liabilities						
Demand deposits	29,032			28,680		
Other liabilities	5,920			4,268		
Total non-interest-bearing liabilities	34,952			32,948		
Total liabilities	540,883			430,792		
Stockholders' equity	31,058			27,706		
Total liabilities and equity	$ 571,941			$ 458,498		
Net interest income		$ 3,904			$ 3,645	
Net yield on average interest-earning assets			2.86%			3.31%
Interest rate spread			2.65%			2.85%

(1.) Average balances are computed on a daily basis.

(2.) Interest income and yields related to certain investment securities exempt from federal income tax are stated on a fully taxable basis using a 34% federal tax rate, reduced by the nondeductible portion of interest expense.

(3.) Nonaccrual loans are included in the average loan balance.

Provision for loan losses. The provision for loan losses amounted to $350,000 for the three months ended September 30, 2008, as compared to $272,000 for the three months ended September 30, 2007, an increase of 28.7%. The amount of the provision for loan losses increased primarily because estimated losses on non performing loans added in the third quarter of 2008 were higher than those added in the third quarter of 2007. Net loan recoveries were $2,000 in the third quarter of 2008 compared to net charge-offs of $21,000 in the third quarter of 2007. We believe the allowance for loan losses is appropriate based on asset quality indicators and other factors.

Non-interest income. Total non-interest income amounted to $1,034,000 for the three months ended September 30, 2008, as compared to $386,000 for the three months ended September 30, 2007. The increase in 2008 was primarily attributable to additional mortgage banking income of $567,000 which was mostly generated by the wholesale mortgage division that began operations in the third quarter of 2007.

Non-interest expense. Total non-interest expense amounted to $3,434,000 for the three months ended September 30, 2008, as compared to $2,459,000 for the three months ended September 30, 2007. This increase of 39.7% was due to $433,000 in new expenses associated with our wholesale mortgage division, to increased FDIC premiums, to expenses related to our Winston-Salem loan production office opened in early 2008, to expenses related to our new corporate headquarters and retail office opened in September 2008, and to other expenses supporting our growth.

Income taxes. Income taxes amounted to $406,000, or 36.6% of income before income taxes, for the three month period ended September 30, 2008, as compared to $482,000, or 37.6% of income before income taxes, for the three month period ended September 30, 2007. The lower tax rate in 2008 resulted from an increase in non-taxable income from bank owned life insurance and from non-taxable investments.

Comparison of Results of Operations for the Nine Months Ended September 30, 2008 and 2007

General. Net income for the nine months ended September 30, 2008 and 2007, amounted to $2,014,000, or $0.59 per diluted share, and $2,338,000, or $0.69 per diluted share, respectively. The decrease in net income was primarily due to a higher provision for loan losses and higher non-interest expense.

Net interest income. Net interest income increased 4.8% to $11,136,000 for the nine months ended September 30, 2008, from $10,629,000 for the nine months ended September 30, 2007. Growth in interest earning assets and liabilities primarily accounted for the higher net interest income in the 2008 period. The net yield on average interest earning assets declined in the 2008 period because of lower interest rates and a very competitive deposit market. We are asset sensitive which means that our net interest income, absent of growth, generally decreases when the prime rate declines and increases when the prime rate rises. Approximately 70% of our loans are variable rate and primarily adjust with the prime rate.

Provision for loan losses. The provision for loan losses amounted to $1,205,000 for the nine months ended September 30, 2008, as compared to $742,000 for the nine months ended September 30, 2007, an increase of 62.4%. The amount of the provision for loan losses increased primarily because loans increased by $76.5 million for the nine months ended September 30, 2008 compared to $56.9 million for the same period in 2007. The provision also increased in the 2008 period because of higher loan charge-offs and larger anticipated losses on non-performing assets at September 30, 2008 than at September 30, 2007. Net loan charge-offs were $283,000 and $165,000 in the nine months ending 2008 and 2007, respectively. We believe the allowance for loan losses is appropriate based on asset quality indicators and other factors.

Non-interest income. Total non-interest income amounted to $3,312,000 for the nine months ended September 30, 2008, as compared to $1,084,000 for the nine months ended September 30, 2007. The increase in 2008 was primarily attributable to additional mortgage banking income of $1,845,000 which was mostly generated by the wholesale mortgage division that began operations in the third quarter of 2007. A gain from the sale of securities of $227,000 in 2008 resulted from the sale of stock in a correspondent bank. Income from an increase in the cash value of life insurance also increased to $255,000 in the 2008 period compared to $159,000 in the 2007 period because of an additional investment in bank owned life insurance in 2008.

Non-interest expense. Total non-interest expense amounted to $10,127,000 for the nine months ended September 30, 2008, as compared to $7,232,000 for the nine months ended September 30, 2007. This increase of 40.0% was due to $1,181,000 in new expenses associated with our wholesale mortgage division, to increased FDIC deposit insurance assessments of $184,000, to $126,000 expenses related to a suspended public stock offering, to expenses for our new Winston-Salem loan production office, our new Burlington office and Greensboro corporate headquarters, and to other expenses supporting our growth.

Income taxes. Income taxes amounted to $1,102,000, or 35.4% of taxable income, for the nine month period ended September 30, 2008, as compared to $1,401,000, or 37.5% of taxable income, for the nine month period ended September 30, 2007. The lower tax rate in 2008 resulted from an increase in non-taxable income from bank owned life insurance and from non-taxable investments.

Asset Quality

Non-performing assets, composed of foreclosed real estate, repossessions, non-accrual loans and restructured loans, totaled $3,353,000 at September 30, 2008 compared to $4,542,000 at December 31, 2007. Non-performing assets, as a percentage of total assets, were 0.57% at September 30, 2008, compared to 0.91% at December 31, 2007. There were no loans 90 days or more past due and still accruing interest at September 30, 2008 and $465,000 at December 31, 2007. Foreclosed real estate was $441,000 at September 30, 2008 and $1,001,000 at December 31, 2007.

Our allowance for loan losses is composed of two parts, a specific portion related to non-performing and problem loans and a general section related to performing loans. The specific portion of our allowance for loan losses, which relates to non-performing loans, increased to $723,000 at September 30, 2008 from $447,000 at December 31, 2007 because estimated losses on non performing loan additions in 2008 were higher than those on non performing loans at December 31, 2007 . The general section of our allowance for loan losses was $4,731,000 at September 30, 2008 and $4,085,000 at December 31, 2007. These reserves apply to performing loans and were determined by applying estimated loss ratios inherent in the loan portfolio, ranging from 0.25% on loans secured by stock to 10.00% on unsecured consumer revolving loans, to categories of performing loans at each period end. The general section also includes reserves on watch list loans which are still performing but carry a higher degree of risk because of declining credit factors and an unallocated section related to general economic conditions.

Liquidity and Capital Resources

The objective of our liquidity management is to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for expansion. Liquidity management addresses our ability to meet deposit withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise.

Our primary sources of internally generated funds are principal and interest payments on loans receivable and cash flows generated from operations. External sources of funds include increases in deposits, retail and broker obtained repurchase agreements, federal funds purchased from banks and advances from the Federal Home Loan Bank of Atlanta. In recent months, our liquidity has declined as a result of unusually strong competition among banks for deposits in our local market. A competitor bank with the largest deposit share in our market experienced funding difficulties during the third quarter of 2008 and announced a forced merger. This competitor consistently bid up the yields on deposits in recent months, and we chose not to match their deposit rates with many of our price sensitive customers. We utilized Federal Home Loan Bank advances, Federal funds purchased, and the $8.9 million net proceeds from our subordinated debt offering to fund much of our loan growth during the third quarter of 2008. The yields paid for Federal Home Loan Bank advances and Federal funds purchased were considerably less than the yields paid for certificates of deposits during the third quarter.

We are required under applicable federal regulations to maintain specified levels of liquid investments in qualifying types of investments. Cash and due from banks, federal funds sold, and investment securities available-for-sale are the primary liquid assets of the Bank. Management regularly monitors the Bank’s liquidity position to ensure its liquidity is sufficient to meet its needs. The Commissioner of Banks in North Carolina also began monitoring the liquidity of all banks under its jurisdiction through required weekly reports in the third quarter of 2008.

We are subject to various regulatory capital requirements administered by the banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly discretionary actions by the regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are subject to qualitative judgments by the regulators about components, risk-weightings, and other factors. As of September 30, 2008, the Holding Company was adequately capitalized and the Bank was well capitalized as defined by federal banking regulations. The bank had been adequately capitalized as of the previous two quarter ends, but improved to the highest level of well capitalized after raising approximately $9 million in subordinated debt in the third quarter of 2008.

We filed a registration statement with the Securities and Exchange Commission in June of 2008 to allow us to offer up to 2,300,000 shares of common stock in a fully underwritten public offering, however, we have indefinitely suspended that offering, pending stabilization of the equity markets. In the interim, we are exploring other alternatives to enhance our capital in order to continue the strong growth that we have experienced in recent years. We are evaluating the issuance of preferred stock under the Capital Purchase Program of the Troubled Asset Relief Program administered by the U.S. Department of Treasury, subject to approval by shareholders at a special meeting in December, 2008 to amend the articles of incorporation to authorize issuance of preferred stock. Under this program, we may qualify to issue up to $16 million in preferred stock, or three percent of risk weighted assets of $534.9 million. The preferred stock pays a 5% dividend in the first five years and 9% thereafter; common stock warrants of 15% of the dollar amount of preferred stock issued must also be granted to the Department of the Treasury.

Commitments

In the normal course of business there are outstanding commitments for the extension of credit which are not reflected in the financial statements. At September 30, 2008 and December 31, 2007, pre-approved but unused lines of credit for loans totaled approximately $119,419,000 and $99,276,000, respectively. In addition, we had $7,644,000 and $6,224,000 in standby letters of credit at September 30, 2008 and December 31, 2007, respectively. These commitments represent no more than the normal lending risk that we commit to borrowers. If these commitments are drawn, we will obtain collateral if it is deemed necessary based on our credit evaluation of the counter-party. We believe these commitments can be funded through normal operations.

We are committed for future lease payments on our Friendly office, the land for our new Greensboro headquarters, our loan production office in Winston-Salem, and an ATM site in Asheboro. Minimum aggregate lease payments over the next five years are $1,123,000 and $3,470,000 thereafter.

ITEM 4. Controls and Procedures

At the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective (1) to provide reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company reviews its disclosure controls and procedures, which may include its internal control over financial reporting, on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are various claims and lawsuits in which the Bank is periodically involved incidental to the Bank's business. In the opinion of management, no material loss is expected from any of such pending claims or lawsuits.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
10.1	Employment Agreement of Robert T. Braswell(1)
10.2	Employment Agreement of T. Allen Liles(2)
10.3	Employment Agreement of Gunnar N. R. Fromen(2)
10.4	Employment Agreement of Daniel D. Hornfeck(2)
10.5	Salary Continuation Agreement between Carolina Bank and Robert T. Braswell(3)
10.6	Salary Continuation Agreement between Carolina Bank and T. Allen Liles (2)
10.7	Salary Continuation Agreement between Carolina Bank and Gunnar N. R. Fromen (2)
10.8	Salary Continuation Agreement between Carolina Bank and Daniel D. Hornfeck(2)
10.9	Director Retirement Agreement between Carolina Bank and J. Alexander S. Barrett(2)
10.10	Director Retirement Agreement between Carolina Bank and Gary N. Brown(2)
10.11	Director Retirement Agreement between Carolina Bank and George E. Carr, III(2)
10.12	Director Retirement Agreement between Carolina Bank and John D. Cornet(2)
10.13	Director Retirement Agreement between Carolina Bank and James E. Hooper(2)
10.14	Director Retirement Agreement between Carolina Bank and Kenneth C. Mayer, Jr.(2)
10.15	Director Retirement Agreement between Carolina Bank and T. Gray McCaskill(2)
10.16	Director Retirement Agreement between Carolina Bank and D. Wayne Thomas(2)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act (Filed herewith)
31.2	Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act (Filed herewith)
32.1	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act (Filed herewith)

(1) Incorporated by reference to Form 8-K/A of Carolina Bank Holdings, Inc. (Filed June 9, 2008 with the Securities and Exchange Commission).

Table of Contents

(2) Incorporated by reference to Form 8-K of Carolina Bank Holdings, Inc. (Filed June 5, 2008 with the Securities and Exchange Commission).
(3) Incorporated by reference to Form 8-K of Carolina Bank Holdings, Inc. (Filed May 27, 2008 with the Securities and Exchange Commission).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed by the undersigned thereunto duly authorized.

	Carolina Bank Holdings, Inc.
Date: November 7, 2008	By: /s/ Robert T. Braswell Robert T. Braswell President and Chief Executive Officer
Date: November 7, 2008	By: /s/ T. Allen Liles T. Allen Liles Chief Financial and Principal Accounting Officer

Table of Contents

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* Incorporated by reference

(Back To Top)

Section 2: EX-31.1 (SECTION 302 CEO CERTIFICATION)

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert T. Braswell, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Carolina Bank Holdings, Inc. (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions

about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

By: /s/ Robert T. Braswell
Robert T. Braswell
President and Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (SECTION 302 CFO CERTIFICATION)

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, T. Allen Liles, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Carolina Bank Holdings, Inc. (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 13d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

By: /s/ T. Allen Liles
T. Allen Liles
Chief Financial and Principal Accounting Officer

(Back To Top)

Section 4: EX-32.1 (SECTION 906 CEO AND CFO CERTIFICATION)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned certify, pursuant to 18 U.S.C. Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1.) the Quarterly Report on 10-Q of Carolina Bank Holdings, Inc. (the "Company") for the quarterly period ended September 30, 2008 ("the Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2.) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 7, 2008

/s/ Robert T. Braswell
Robert T. Braswell
President and Chief Executive Officer

Date: November 7, 2008

/s/ T. Allen Liles
T. Allen Liles
Executive Vice President and Chief Financial Officer

(Back To Top)