



PARK STERLING BANK

February 2, 2009

Dear Shareholder:

In the midst of the most challenging operating environment that any of us have ever experienced, your bank has performed exceptionally well. For the fourth quarter of 2008, we earned \$22,000 on a pre-tax basis, compared to a net pre-tax loss of \$466,000 for the fourth quarter of 2007. For the year ending December 31, 2008, pre-tax earnings totaled just under \$15,000, compared to a loss of nearly \$1.9 million for 2007. During the fourth quarter of 2008, we recognized a deferred tax asset of just over \$1.5 million, resulting in after-tax net income for the year 2008 of \$1.55 million.

Board of Directors

*Larry W. Carroll
Chairman*

David M. Bishop

Michael D. Evans

Vinton E. Fountain, III

E. Hooper Hardison, Jr.

Averill C. Harkey

Thomas B. Henson

Frank W. Ix

Bryan F. Kennedy, III

Anne S. Leggett

Steven W. Luquire

Joseph J. C. "Chip" Mark

Bailey W. Patrick

Dr. Shawn P. Quillin

J. Carlton Showalter

William B. Webb, Jr.

During the year, total assets increased 74% to \$429.4 million, loans increased 64% to \$371.3 million, and deposits jumped 89% to \$351.3 million. More importantly, asset quality remains strong. Total non-performing assets at year-end were less than 0.4% of total loans, we had no other past due loans, and net charge offs were 0.1%, all of which compare very favorably with our peer banks. While we remain pleased with our asset quality to date, we believe 2009 will be at least as challenging, if not more so, as 2008 in both of our markets. Real estate values continue to fall, and homebuilding has slowed dramatically. As an active real estate lender, we are paying especially close attention to our portfolio. Our banking team is committed to identifying problems early, and actively working to minimize any potential losses. Our reserve for any potential future loan losses is \$5.6 million, and we are committed to maintaining this at a strong level during these times.

From an operating point of view, 2008 also saw the industry experiencing drastically tightened margins, which impacted profitability. While we have seen signs of improved pricing in our markets, it will take some time for this to translate to more normal net interest margins, and, in turn, better profitability for the industry. We expect 2009 to be a much slower growth year for your bank, with a continued focus on asset quality, profitability and core deposit generation. We continue to add good full-service clients and would ask that you refer your friends, neighbors and business associates to us. We promise to take exceptional care of their banking needs.

As always, thank you for your support. Please let us know if you have any questions or comments.

Sincerely,

Larry W. Carroll
Chairman

Bryan F. Kennedy, III
President & CEO