April 20, 2012

Dear Shareholder,

We are pleased to report again that our bank experienced a solid 2011 in many respects. Profitability was up over 2010 levels, and our capital remains very high relative to our peers and the industry in general. Our Tier 1 Capital is 17.8% compared to the FDIC standard of 6.0% to be considered well capitalized. This strong position will allow us to continue and weather any unforeseen asset quality problems and provides a long runway ahead for future relationship enhancements and quality growth.

We continue to compare very favorably to our peers also on several other measurable ratios. Control items like non-interest expense, occupancy and operating related items stack up nicely. We also have almost 25% more assets per employee than our peers. Our foundation of core balance sheet strength, quality credit underwriting, expense and efficiency control dovetailed with top quality employees, products and services continue to be very important to us.

As we enter our fifth year of operation let me discuss our home office situation. When we opened our doors in January 2008 we were in the midst of one of the worst economic downturns in our country's history. While it may technically be over, there are many lingering effects and headwinds are still strong. The Southeastern US still lags many improvements felt elsewhere in the country. North Carolina continues to experience higher unemployment than 45 other states. Non performing bank assets in North Carolina are among the highest in the country. The greater Charlotte metro area along with coastal and mountain regions have been hardest hit. We have taken the approach that our temporary facility continues to work just fine for now. We have the second best deposit market share in our headquarters' market out of 19 other financial institutions. It is not a problem with our customers, in fact we hear comments that it is reassuring to many to bank with a safe, sound, well-capitalized bank, one that is safe for their deposits and will be around for the future. No one knows how long this economy will continue to be fragile in our area. The blueharbor way has been one of hunkering down, preserving capital, keeping expenses low and trying to prevent mistakes that could be very costly to our company. If one is looking for flash and glitz, they need to look elsewhere. If one is looking for solid, experienced advice and counsel, a true relationship home, competitive products and service with a smile, then we are for you. We will build in due time but for now this is not an issue with our clients, our employees and our shareholders. With our online banking capabilities, remote deposit capture for commercial clients and now online account opening and funding, our reach and ease of convenience is very competitive.

The new year is also bringing some new and exciting relationship opportunities our way. Cautious optimism is bubbling slowly again and our loan volumes are beginning to creep back. Real estate valuations appear to be bottoming and even increasing a bit. Because of our conservative approach and our capital on hand we are in a nice position to grow with you, your friends and our clients in the year to come.

As always, we appreciate your support and together let's look for ways to expand our relationships and grow our bank together. I welcome your thoughts and feedback.

Sincerely,

Joe I. Marshall Jr.

Jim Marshall

2011 Annual Report

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This Annual Report to Shareholders contains forward-looking statements. Such forward-looking statements may be identified by the use of such words as "may," "will," "believe," "expect," "anticipate," should," "planned," "estimated" and "potential." Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, changes in the interest rate environment, management's business strategy, national, regional and local market conditions and legislative and regulatory conditions.

Readers should not place undue reliance on forward-looking statements, which reflect management's view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
blueharbor bank
Mooresville, North Carolina

We have audited the accompanying balance sheets of blueharbor bank (the "Bank") as of December 31, 2011 and 2010 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of blueharbor bank at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Elliott Davis, PLLC
Galax, VA
March 30, 2012

Balance Sheets

December 31, 2011 and 2010

	2011	2010
Assets		
Cash and due from banks	$ 13,607,671	$ 6,457,410
Interest bearing deposits	2,948,734	82,078
Cash and cash equivalents	16,556,405	6,539,488
Investment securities available-for-sale	20,614,273	16,752,302
Federal Home Loan Bank stock	239,500	313,900
Loans, net of allowance for loan losses of $1,665,442 for 2011 and $1,437,174 for 2010	91,916,108	98,860,480
Property and equipment, net	2,155,517	2,297,789
Accrued interest receivable	341,136	339,221
Other real estate owned	4,328,494	3,132,324
Other assets	1,599,100	2,105,480
Total assets	$ 137,750,533	$ 130,340,983
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 6,615,112	$ 5,983,495
Interest-bearing	110,746,829	104,746,722
Total deposits	117,361,941	110,730,217
Repurchase agreements	391,939	462,808
Accrued interest payable	57,006	92,314
Other liabilities	825,431	588,023
Total liabilities	118,636,317	111,873,362
Commitments and contingencies (Notes 6 and 12)	-	-
Shareholders' equity		
Preferred stock, 5,000,000 shares authorized: no shares issued and outstanding at December 31, 2011 and 2010	-	-
Common stock, $5 par value; 20,000,000 shares authorized: 1,900,000 shares issued and outstanding at December 31, 2011 and 2010	9,500,000	9,500,000
Surplus	10,740,717	10,623,763
Retained deficit	(1,451,216)	(1,745,156)
Accumulated other comprehensive income	324,715	89,014
Total shareholders' equity	19,114,216	18,467,621
Total liabilities and shareholders' equity	$ 137,750,533	$ 130,340,983

See Notes to Financial Statements

Income Statements

For the years ended December 31, 2011 and 2010

	2011	2010
Interest income		
Loans and fees on loans	$ 5,012,722	$ 5,257,738
Investment securities	550,568	514,076
Interest bearing deposits	8,745	51
Total interest income	5,572,035	5,771,865
Interest expense		
Deposits	1,199,100	1,655,827
Borrowings	12,339	14,311
Total interest expense	1,211,439	1,670,138
Net interest income	4,360,596	4,101,727
Provision for loan losses	446,521	955,967
Net interest income after provision for loan losses	3,914,075	3,145,760
Noninterest income		
Service charges on deposit accounts	176,883	140,986
Mortgage fees	32,502	57,937
Gain on sale of securities	24,092	39,970
Gain on sale of loans	-	111,506
Other income	99,472	10,016
Total noninterest income	332,949	360,415
Noninterest expense		
Salaries and employee benefits	1,766,815	1,653,832
Occupancy expense	323,383	321,510
Equipment expense	154,016	180,241
Data processing expense	420,697	367,833
Professional services	178,001	141,339
Advertising expense	81,522	70,414
Regulatory expense	156,697	211,414
Other real estate expense, net	324,300	30,118
Other expense	248,930	225,843
Total noninterest expense	3,654,361	3,202,544
Net income before income taxes	592,663	303,631
Income tax expense	298,723	117,062
Net income	$ 293,940	$ 186,569
Basic earnings per common share	$ 0.15	$ 0.10
Diluted earnings per common share	$ 0.15	$ 0.10
Weighted average common shares outstanding	1,900,000	1,900,000
Weighted average dilutive common shares outstanding	1,900,000	1,900,000

See Notes to Financial Statements

Statements of Changes in Shareholders' Equity

For the years ended December 31, 2011 and 2010

	Common Shares	Common Amount	Surplus	Retained (Deficit)	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2009	1,900,000	$ 9,500,000	$ 10,504,521	$ (1,931,725)	$ 13,667	$ 18,086,463
Comprehensive income						
Net income	-	-	-	186,569	-	186,569
Other comprehensive income:						
Net change in unrealized appreciation on investment securities available-for-sale (net of tax of $62,687)					99,906	
Reclassification adjustment for gains included in net income (net of tax expense of $15,411)					(24,559)	
Other comprehensive income					75,347	75,347
Total comprehensive income						261,916
Stock based compensation	-	-	119,242	-	-	119,242
Balance, December 31, 2010	1,900,000	$ 9,500,000	$ 10,623,763	$ (1,745,156)	$ 89,014	$ 18,467,621
Comprehensive income						
Net income	-	-	-	293,940	-	293,940
Other comprehensive income:						
Net change in unrealized appreciation on investment securities available-for-sale (net of tax of $157,177)					250,504	
Reclassification adjustment for gains included in net income (net of tax expense of $9,289)					(14,803)	
Other comprehensive income					235,701	235,701
Total comprehensive income						529,641
Stock based compensation	-	-	116,954	-	-	116,954
Balance, December 31, 2011	1,900,000	$ 9,500,000	$10,740,717	$ (1,451,216)	$ 324,715	$ 19,114,216

See Notes to Financial Statements

Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net income	$ 293,940	$ 186,569
Adjustments to reconcile net income to		
net cash provided by operations:		
Depreciation	169,737	198,423
Provision for loan losses	446,521	955,967
Accretion of discount on securities, net of amortization	64,723	53,476
Gain on sale of investment securities	(24,092)	(39,970)
Deferred income tax expense	298,723	117,062
Loss (Gain) on sale of other real estate owned	(24,258)	449
Write-downs of other real estate owned	372,748	-
Gain on sale of loans	-	(111,506)
Stock based compensation	116,954	119,242
Changes in assets and liabilities:		
Accrued income	(1,915)	(1,998)
Other assets	59,767	61,460
Accrued interest payable	(35,308)	(33,458)
Other liabilities	237,408	159,561
Net cash provided by operating activities	1,974,948	1,665,277
Cash flows from investing activities		
Purchases of investment securities	(10,424,615)	(11,459,639)
Purchases of Federal Home Loan Bank of Atlanta stock	(24,600)	(152,500)
Redemption of Federal Home Loan Bank of Atlanta stock	99,000	-
Principal payments on investment securities	1,994,994	2,761,287
Proceeds from sales of investment securities	4,910,609	4,677,853
Net (increase) decrease in loans	4,697,833	(12,346,208)
Proceeds from sale of loans	-	2,163,991
Proceeds from sale of other real estate owned	255,358	186,903
Purchases of property and equipment	(27,465)	(21,916)
Net cash provided by (used in) investing activities	1,481,114	(14,190,229)
Cash flows from financing activities		
Net increase in deposits	6,631,724	16,996,536
Net change in repurchase agreements	(70,869)	(121,069)
Net change in federal funds purchased	-	(1,040,000)
Net cash provided by financing activities	6,560,855	15,835,467
Net increase in cash and cash equivalents	10,016,917	3,310,514
Cash and cash equivalents, beginning	6,539,488	3,228,974
Cash and cash equivalents, ending	$ 16,556,405	$ 6,539,488
Supplemental disclosure of cash flow information		
Interest paid	$ 1,246,747	$ 1,703,596
Income taxes paid	$ -	$ -
Transfer of loans to other real estate	$ 1,800,018	$ 3,132,324
Change in unrealized gain on investment securities	$ 383,590	$ 122,624

See Notes to Financial Statements

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

blueharbor bank (the "Bank") was incorporated on January 3, 2008 under the laws of the State of North Carolina ("NC") and commenced operations on January 8, 2008. The Bank currently serves Iredell County, NC and northern Mecklenburg County, NC and surrounding areas through its banking offices in Mooresville and Huntersville, NC. The Bank opened the Huntersville branch in late November 2008. As a state chartered bank, which is not a member of the Federal Reserve, the Bank is subject to regulation by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation.

The accounting and reporting policies of the Bank follow generally accepted accounting principles ("GAAP") and general practices within the financial services industry. Following is a summary of the more significant policies:

Critical Accounting Policies

Management believes the policies with respect to the methodology for the determination of the allowance for loan losses and asset impairment judgments involve a high degree of complexity. Management must make difficult and subjective judgments which require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. These critical policies and their application are periodically reviewed with the Audit Committee and the Board of Directors.

Business Segments

The Bank reports its activities as a single business segment. In determining the appropriateness of segment definition, the Bank considers the materiality of a potential segment and components of the business about which financial information is available and regularly evaluated relative to resource allocation and performance assessment.

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "cash and due from banks" and "interest bearing deposits."

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized costs. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Securities, continued

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal amount adjusted for any charge-offs and the allowance for loan losses. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Discounts and premiums on any purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed. Interest income is subsequently recognized on the cash basis or cost recovery method, as appropriate. When facts and circumstances indicate the borrower has regained the ability to meet the required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, continued

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Property and Equipment

Bank premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed by the straight-line method over the following estimated useful lives:

	Years
Leasehold improvements	2-10
Furniture and equipment	2-7

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less anticipated cost to sell at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other real estate expense in the accompanying income statements.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Expense

The Bank expenses advertising costs as they are incurred.

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

Income Taxes

Provision for income taxes is based on amounts reported in the statements of operations (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income tax liability relating to unrealized appreciation (or the deferred tax asset in the case of unrealized depreciation) on investment securities available-for-sale is recorded in other liabilities (assets) when applicable. Such unrealized appreciation or depreciation is recorded as an adjustment to equity in the financial statements and not included in income determination until realized. Accordingly, the resulting deferred income tax liability or asset is also recorded as an adjustment to equity.

Basic Earnings per Share

Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding during the period, after giving retroactive effect to stock splits and dividends.

Diluted Earnings per Share

The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of those potential common shares.

Comprehensive Income (Loss)

Annual comprehensive income (loss) reflects the change in the Bank's equity during the year arising from transactions and events other than investment by and distributions to shareholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of shareholders' equity rather than as income or expense.

Fair Value of Financial Instruments

Fair value information about financial instruments is required to be disclosed, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

Note 1. Organization and Summary of Significant Accounting Policies, continued

Fair Value of Financial Instruments, continued

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

Securities: Fair values for securities, excluding restricted equity securities, are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying values of restricted equity securities approximate fair values.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair values disclosed for demand and savings deposits are, by definition, equal to the amount payable on demand at the reporting date. The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.

Repurchase agreements and federal funds purchased: The carrying amounts reported in the balance sheet for repurchase agreements and federal funds purchased approximate their fair values.

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Bank.

In July 2010, the Receivables topic of the Accounting Standards Codification ("ASC") was amended by Accounting Standards Update ("ASU") 2010-20 to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The amendments require the allowance disclosures to be provided on a disaggregated basis. The Company is required to include these disclosures in its interim and annual financial statements. See Note 5.

Disclosures about Troubled Debt Restructurings ("TDRs") required by ASU 2010-20 were deferred by the Financial Accounting Standards Board ("FASB") in ASU 2011-01 issued in January 2011. In April 2011 the FASB issued ASU 2011-02 to assist creditors with their determination of when a restructuring is a TDR. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties as both events must be present.

Disclosures related to TDRs under ASU 2010-20 have been presented in Note 5.

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the ASC was amended by ASU 2011-03. The requirement for the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and the collateral maintenance implementation guidance related to that criterion were removed from the assessment of effective control. The other criteria to assess effective control were not changed. The amendments are effective for the Company beginning January 1, 2012 but are not expected to have a material effect on the financial statements.

Note 1. Organization and Summary of Significant Accounting Policies, continued

ASU 2011-04 was issued in May 2011 to amend the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments were effective for the Company beginning January 1, 2012 but are not expected to have a material effect on the financial statements.

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments will be applicable to the Company on January 1, 2012 and will be applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while FASB redeliberates future requirements.

Other accounting standards that have been issued or proposed by FASB or other standards-setting bodies are not expected to have a material impact on the Bank's financial position, results of operations or cash flows.

Note 2. Restrictions on Cash

To comply with banking regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirement was $3,487,200 and $3,161,557 at December 31, 2011 and 2010, respectively.

Note 3. Securities

Debt and equity securities have been classified in the balance sheet according to management's intent. The carrying amount of securities (all available-for-sale) and their approximate fair values at December 31, 2011 and 2010 are:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2011				
Government sponsored enterprises	$ 12,629,035	$ 290,870	$ 9,268	$ 12,910,637
Mortgage-backed securities	7,456,783	246,853	-	7,703,636
	$ 20,085,818	$ 537,723	$ 9,268	$ 20,614,273
2010				
Government sponsored enterprises	$ 9,330,961	$ 58,064	$ 110,997	$ 9,278,028
Mortgage-backed securities	7,276,476	197,798	-	7,474,274
	$ 16,607,437	$ 255,862	$ 110,997	$ 16,752,302

The fair value of securities pledged for agreements to repurchase were $3,614,819 and $1,574,018 at December 31, 2011 and 2010, respectively.

The Bank had $24,092 and $39,970 of realized gains on investment securities for the years ended December 31, 2011 and 2010, respectively. Proceeds from the sale of investment securities were $4,910,609 and $4,677,853 for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, no securities have been in a continuous unrealized loss position for more than 12 months.

Note 3. Securities, continued

The scheduled maturities of available-for-sale debt securities were as follows:

	December 31, 2011 Amortized Cost	December 31, 2011 Fair Value
Due in less than one year	$ -	$ -
Due in one to three years	-	-
Due in three to five years	-	-
Due in five to ten years	1,061,634	1,113,919
Due after ten years	19,024,184	19,500,354
Total	$ 20,085,818	$ 20,614,273

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses in the Bank's investment portfolio relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other-than-temporary.

Note 4. Loans Receivable

The major components of loans on the balance sheet at December 31, 2011 and 2010 are as follows:

	2011	2010
Commercial and Industrial	$ 12,010,006	$ 12,228,195
Real estate:		
Construction and development	6,357,786	9,177,304
Residential, 1-4 families	30,640,192	29,963,523
Nonfarm nonresidential	41,215,604	45,543,205
Farmland	263,110	315,798
Consumer and overdrafts	1,092,730	1,116,363
Multi-family	1,757,490	1,813,476
	93,336,918	100,157,864
Deferred loan fees and origination costs, net	244,632	139,790
Allowance for loan losses	(1,665,442)	(1,437,174)
Loans, net of allowance	$ 91,916,108	$ 98,860,480

There were $48,302,522 of loans pledged to the Federal Home Loan Bank ("FHLB") of Atlanta at December 31, 2011 to secure an unused $13,790,000 line of credit and $50,496,654 of loans were pledged to the FHLB of Atlanta at December 31, 2010 to secure an unused $13,000,000 line of credit.

Note 5. Allowance for Loan Losses and Credit Quality

An analysis of the allowance for loan losses for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Balance at beginning of period	$ 1,437,174	$ 1,561,840
Provision for loan losses charged to operations	446,521	955,967
Recoveries of amounts charged off	131,968	116,288
Amounts charged off	350,221	1,196,921
Balance at end of period	$ 1,665,442	$ 1,437,174

An analysis of impaired loans and other real estate owned at December 31, 2011 and 2010 is as follows:

	2011	2010
Impaired loans	$ 4,323,645	$ 3,230,898
Related allowance for credit losses	$ 327,592	$ -
Interest income recognized on impaired loans	$ 51,117	$ 35,369
Average balance of impaired loans (based on month-end balances)	$ 4,011,322	$ 2,460,884
Impaired loans with no allowance for credit losses	$ 2,584,391	$ 3,230,898
Nonaccrual loans	$ 2,546,400	$ 2,380,539
Loans past due 90 days or more and still accruing interest	$ -	$ -
Other real estate owned	$ 4,328,494	$ 3,132,324

The following is an analysis of activity in the allowance for loan losses by portfolio segment in addition to the disaggregation of the allowance and outstanding loan balances by impairment method as of and for the year ended December 31, 2011 and 2010:

December 31, 2011	Commercial Real Estate	Consumer Real Estate	Commercial and Industrial	Consumer	Other	Total
Allowance for loan losses:						
Beginning balance	$ 713,937	$ 136,175	$ 139,728	$ 11,164	$ 436,170	$ 1,437,174
Charge-offs	(118,396)	(108,069)	(122,401)	(1,355)	-	(350,221)
Recoveries	115,570	-	16,398	-	-	131,968
Provision	188,239	97,048	196,807	37	(35,610)	446,521
Ending balance - total	$ 899,350	$ 125,154	$ 230,532	$ 9,846	$ 400,560	$ 1,665,442
Ending balance - individually evaluated for impairment	$ 209,083	$ -	$ 118,509	$ -	$ -	$ 327,592
Ending balance - collectively evaluated for impairment	$ 690,267	$ 125,154	$ 112,023	$ 9,846	$ 400,560	$ 1,337,850

Note 5. Allowance for Loan Losses and Credit Quality, continued

December 31, 2010	Commercial Real Estate	Consumer Real Estate	Commercial and Industrial	Consumer	Other	Total
Allowance for loan losses:						
Beginning balance	$ 886,311	$ 91,608	$ 134,376	$ 25,570	$ 423,975	$ 1,561,840
Charge-offs	(1,117,872)	(68,766)	(10,283)	-	-	(1,196,921)
Recoveries	112,288	-	4,000	-	-	116,288
Provision	833,210	113,333	11,635	(14,406)	12,195	955,967
Ending balance - total	$ 713,937	$ 136,175	$ 139,728	$ 11,164	$ 436,170	$ 1,437,174
Ending balance - individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance - collectively evaluated for impairment	$ 713,937	$ 136,175	$ 139,728	$ 11,164	$ 436,170	$ 1,437,174

The following is an analysis presenting impaired loan information by loan class as of December 31, 2011 and 2010:

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans for which the full loss has been charged-off:			
Commercial Real Estate	$ 2,269,346	$ 2,331,573	$ -
Consumer Real Estate	315,045	491,880	-
Commercial and Industrial	-	-	-
Consumer	-	-	-
Total with no related allowance	$ 2,584,391	$ 2,823,453	$ -
Impaired loans with an allowance recorded:			
Commercial Real Estate	$ 554,164	$ 554,164	$ 209,083
Consumer Real Estate	-	-	-
Commercial and Industrial	1,185,090	1,185,090	118,509
Consumer	-	-	-
Total with no related allowance	$ 1,739,254	$ 1,739,254	$ 327,592
Total impaired loans			
Commercial	$ 4,008,600	$ 4,070,827	$ 327,592
Consumer	315,045	491,880	-
Total impaired loans	$ 4,323,645	$ 4,562,707	$ 327,592

Note 5. Allowance for Loan Losses and Credit Quality, continued

December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans for which the full loss has been charged-off:			
Commercial Real Estate	$ 2,951,633	$ 3,835,813	$ -
Consumer Real Estate	279,265	348,031	-
Commercial and Industrial	-	-	-
Consumer	-	-	-
Total with no related allowance	$ 3,230,898	$ 4,183,844	$ -
Impaired loans with an allowance recorded:			
Commercial Real Estate	$ -	$ -	$ -
Consumer Real Estate	-	-	-
Commercial and Industrial	-	-	-
Consumer	-	-	-
Total with no related allowance	$ -	$ -	$ -
Total impaired loans			
Commercial	$ 2,951,633	$ 3,835,813	$ -
Consumer	279,265	348,031	-
Total impaired loans	$ 3,230,898	$ 4,183,844	$ -

Internally assigned risk ratings assist the Bank in determining the risk profile of each loan in the loan portfolio and changes in the internally assigned risk ratings are useful in monitoring trends in the loan portfolio quality. The four categories used by the Bank are Pass, Special mention, Substandard and Doubtful and can be generally described as follows:

- **Pass** – these loans have a risk profile which range from superior quality with minimal credit risk to loans requiring management attention but still have an acceptable risk profile and continue to perform primarily as contracted.

- **Special mention** – these loans generally have underwriting guideline tolerances and/or exceptions with no identifiable mitigating factors. These loans may also be currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank’s position at some future date. Potential weaknesses are the result of deviations from prudent lending practices. The loans may also have adverse economic conditions that developed subsequent to the loan origination that do not jeopardize liquidation of the debt, but do substantially increase the level of risk.

- **Substandard** – these loans are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. These loans are no longer considered to be adequately protected due to the borrower’s declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status or extensions and/or renewals.

Note 5. Allowance for Loan Losses and Credit Quality, continued

- **Doubtful** – these loans have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on nonaccrual status, and no definite repayment schedule exists. Certain events may occur which would salvage the debt including an injection of capital into the borrower, alternative financing obtained by the borrower or liquidation of assets or the pledging of additional collateral by the borrower.

An analysis of the loan portfolio based upon the internally assigned risk ratings as of December 31, 2011 and 2010 is as follows:

December 31, 2011	Commercial Real Estate	Consumer Real Estate	Commercial and Industrial	Consumer	Total
Risk rating:					
Pass	$ 46,053,096	$ 24,922,698	$ 10,007,703	$ 892,755	$ 81,876,252
Special mention	6,733,050	-	1,103,766	199,975	8,036,791
Substandard	2,210,292	224,867	898,537	-	3,333,696
Doubtful	-	90,179	-	-	90,179
Total	$ 54,996,438	$ 25,237,744	$ 12,010,006	$ 1,092,730	$ 93,336,918

December 31, 2010	Commercial Real Estate	Consumer Real Estate	Commercial and Industrial	Consumer	Total
Risk rating:					
Pass	$ 50,051,341	$ 27,234,935	$ 11,231,192	$ 1,116,363	$ 89,633,831
Special mention	6,100,217	-	940,000	-	7,040,217
Substandard	3,147,548	279,265	57,003	-	3,483,816
Doubtful	-	-	-	-	-
Total	$ 59,299,106	$ 27,514,200	$ 12,228,195	$ 1,116,363	$ 100,157,864

The following is a past due aging analysis of the Bank's loan portfolio by loan class as of December 31, 2011 and 2010:

December 31, 2011	30-59 Days Past Due and Still Accruing	60-89 Days Past Due and Still Accruing	Greater than 90 Days and Still Accruing	Total Past Due and Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
Commercial Real Estate	$ -	$ -	$ -	$ -	$ 1,372,421	$ 53,624,017	$ 54,996,438
Consumer Real Estate	-	-	-	-	275,442	24,962,302	25,237,744
Commercial and Industrial	286,553	-	-	286,553	898,537	10,824,916	12,010,006
Consumer	-	-	-	-	-	1,092,730	1,092,730
Total	$ 286,553	$ -	$ -	$ 286,553	$ 2,546,400	$ 90,503,965	$ 93,336,918

Note 5. Allowance for Loan Losses and Credit Quality, continued

December 31, 2010	30-59 Days Past Due and Still Accruing	60-89 Days Past Due and Still Accruing	Greater than 90 Days and Still Accruing	Total Past Due and Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
Commercial Real Estate	$ 387,708	$ -	$ -	$ 387,708	$ 2,101,274	$ 56,810,124	$ 59,299,106
Consumer Real Estate	-	-	-	-	279,265	27,234,935	27,514,200
Commercial and Industrial	73,351	200,000	-	273,351	-	11,954,844	12,228,195
Consumer	-	-	-	-	-	1,116,363	1,116,363
Total	$ 461,059	$ 200,000	$ -	$ 661,059	$ 2,380,539	$ 97,116,266	$ 100,157,864

As a result of adopting the amendments in ASU 2011-02, the Bank reassessed restructurings that occurred on or after the beginning of the fiscal year of adoption (January 1, 2011) to determine whether they are considered troubled debt restructurings ("TDRs") under the amended guidance. The Bank identified as TDRs certain loans for which the allowance for loan losses had previously been measured under a general allowance methodology. Upon identifying those loans as TDRs, the Bank identified them as impaired under the guidance in ASC 310-10-35. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those loans newly identified as impaired. An analysis of the number of TDRs by loan type occurring during the year ended December 31, 2011 follows:

	Troubled Debt Restructurings For the year ended December 31, 2011		
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial Real Estate	2	$ 1,850,511	$ 1,850,511
Consumer Real Estate	-	-	-
Commercial and Industrial	-	-	-
Consumer	-	-	-
Total	2	$ 1,850,511	$ 1,850,511

During the year ended December 31, 2011, the Bank modified 2 loans that were considered to be troubled debt restructurings. We made principal payment deferrals and interest rate concessions for both of these loans.

There were no TDRs that subsequently defaulted during the year ended December 31, 2011.

Note 6. Property and Equipment

Components of Property and Equipment

Components of property and equipment and total accumulated depreciation at December 31, 2011 and 2010 are as follows:

	2011	2010
Land	$ 1,677,575	$ 1,677,575
Buildings and improvements	340,546	339,777
Furniture and equipment	661,026	740,135
Property and equipment, total	2,679,147	2,757,487
Less accumulated depreciation	523,630	459,698
Property and equipment, net of depreciation	$ 2,155,517	$ 2,297,789

Depreciation expense was $169,737 and $198,423 for the years ended December 31, 2011 and 2010, respectively.

Leases

In June 2008, the Bank entered into an operating lease for its branch facility in Huntersville. Total rent expense was $116,878 and $114,817 for the fiscal years ended December 31, 2011 and 2010, respectively. In September 2007, the Bank (in its pre-organizational phase) entered into an operating lease on the modular bank building in Mooresville. Total rent expense was $69,552 and $69,737 for the fiscal years ended December 31, 2011 and 2010, respectively. In September 2008, the Bank entered into an operating lease to rent storage space. Total rent expense was $1,375 and $1,625 for the fiscal years ended December 31, 2011 and 2010, respectively.

Future minimum lease payments are as follows:

2012	$ 187,702
2013	120,899
2014	123,317
2015	125,783
2016	128,299
Thereafter	230,534
	$ 916,534

Note 7. Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2011 and 2010 was $18,873,644 and $22,625,185, respectively. At December 31, 2011, the scheduled maturities of time deposits are as follows:

	Less Than $100,000	$100,000 or More	Total
2011	$ 7,291,737	$ 14,167,887	$ 21,459,624
2012	4,086,334	3,287,835	7,374,169
2013	3,747,209	225,000	3,972,209
2014	1,333,268	313,469	1,646,737
2015	727,814	879,453	1,607,267
Thereafter	-	-	-
	$ 17,186,362	$ 18,873,644	$ 36,060,006

Brokered deposits totaled $7,842,550 and $11,027,369 as of December 31, 2011 and 2010, respectively.

Note 8. Borrowings

Lines of Credit

The Bank has established credit facilities to provide additional liquidity if and as needed. These credit facilities consist of unsecured lines of credit with correspondent banks for federal funds purchased totaling $8,200,000 and a secured line of credit with FHLB of Atlanta of $13,790,000 for a total of $21,990,000 available. There were no borrowings under these credit facilities at December 31, 2011 and 2010.

Repurchase Agreements

The Bank had securities sold under agreements to repurchase that mature on a daily basis of $391,939 and $462,808 at December 31, 2011 and 2010, respectively. The weighted average interest rates on these agreements were 0.88% and 1.00% at December 31, 2011 and 2010, respectively.

Note 9. Fair Value of Financial Instruments

Disclosures about the fair value of assets and liabilities recognized in the balance sheet are required whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined 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. A fair value hierarchy has been established, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value is measured 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 2 securities include Treasury notes and bills, mortgage-backed securities issued by government sponsored entities, municipal bonds and other securities issued by government sponsored agencies.

Note 9. Fair Value of Financial Instruments, continued

Impaired Loans

The Bank does not record loans at fair value on a recurring basis. From time to time, a loan is considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value, and discounted cash flows. When the fair value of collateral is based on an observable market price or a current appraised value, the Bank records the impaired loan as Level 2. If the fair value of the loan is based on criteria other than observable market prices or current appraised value, the loan is recorded as Level 3.

Other Real Estate Owned

Other real estate owned is adjusted to fair value upon transfer of the loan to other real estate owned and is carried at the lower of the carrying value or fair value. Fair value is based upon independent observable market prices or appraised values of the collateral, which the Bank considers to be Level 2 inputs. If the fair value of the property is based on criteria other than observable market or current appraised value, the property is recorded as Level 3.

General

The Bank has no liabilities carried at fair value or measured at fair value on a recurring or nonrecurring basis. The Bank has no assets or liabilities whose fair values are measured using Level 3 inputs. Below is a summary of assets carried at fair value or measured at fair value on a recurring or nonrecurring basis as of December 31, 2011 and 2010:

As of December 31, 2011:

Recurring Basis	Total	Level 1	Level 2	Level 3
Investment in securities available-for-sale:				
Government sponsored enterprises	$ 12,910,637	$ -	$ 12,910,637	$ -
Mortgage-backed securities	7,703,636	-	7,703,636	-
Total assets at fair value	$ 20,614,273	$ -	$ 20,614,273	$ -

Nonrecurring Basis	Total	Level 1	Level 2	Level 3
Impaired loans, net of related allowance for credit losses				
Commercial Real Estate	$ 2,614,427	$ -	$ 2,614,427	$ -
Consumer Real Estate	315,045	-	315,045	-
Commercial and Industrial	1,066,581	-	1,066,581	-
Consumer	-	-	-	-
Total impaired loans, net of related allowance for credit losses	3,996,053	-	3,996,053	-
Other real estate owned	4,328,494	-	4,328,494	-
Total assets at fair value	$ 8,324,547	$ -	$ 8,324,547	$ -

Note 9. Fair Value of Financial Instruments, continued

As of December 31, 2010:

Recurring Basis	Total	Level 1	Level 2	Level 3
Investment in securities available-for-sale:				
Government sponsored enterprises	$ 9,278,028	$ -	$ 9,278,028	$ -
Mortgage-backed securities	7,474,274	-	7,474,274	-
Total assets at fair value	$ 16,752,302	$ -	$ 16,752,302	$ -

Nonrecurring Basis	Total	Level 1	Level 2	Level 3
Impaired loans, net of related allowance for credit losses				
Commercial Real Estate	$ 2,951,633	$ -	$ 2,951,633	$ -
Consumer Real Estate	279,265	-	279,265	-
Commercial and Industrial	-	-	-	-
Consumer	-	-	-	-
Total impaired loans, net of related allowance for credit losses	3,230,898	-	3,230,898	-
Other real estate owned	3,132,324	-	3,132,324	-
Total assets at fair value	$ 6,363,222	$ -	$ 6,363,222	$ -

For assets and liabilities that are not presented on the balance sheet at fair value, the Bank uses the following methods to determine fair value:

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets or liabilities not considered financial instruments include deferred tax assets, premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered.

The Bank's fair value methods and assumptions for assets and liabilities that are not presented on the balance sheet at fair value are as follows:

- *Cash and due from banks, FHLB stock, accrued interest receivable, repurchase agreements, and accrued interest payable.* The carrying value is a reasonable estimate of fair value.

- *Loans, net.* The carrying value for variable rate loans is a reasonable estimate of fair value due to contractual interest rates based on prime. Fair value for fixed rate loans is estimated based upon discounted future cash flows using discount rates comparable to rates currently offered for such loans.

- *Deposit accounts.* The fair value of certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities. The fair value of all other deposit account types is the amount payable on demand at year end.

Note 9. Fair Value of Financial Instruments, continued

- *FHLB borrowings and federal funds purchased*. The carrying value of variable rate borrowings is considered to approximate fair value.

- *Commitments to extend credit and standby letters of credit*. The large majority of the Bank's loan commitments are at variable rates, and therefore, are subject to minimal interest rate risk exposure. Therefore, the fair value of these financial instruments is considered to approximate the commitment amount.

Based on the limitations, methods, and assumptions noted, the estimated fair values of the Bank's financial instruments at December 31, 2011 and 2010 are as follows:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 16,556,405	$ 16,556,405	$ 6,539,488	$ 6,539,488
Investment securities, available-for-sale	20,614,273	20,614,273	16,752,302	16,752,302
Federal Home Loan Bank Stock	239,500	239,500	313,900	313,900
Loans, net	91,916,108	92,561,369	98,860,480	99,008,686
Financial liabilities:				
Deposit accounts	117,361,941	120,088,266	110,730,217	110,317,220
Repurchase agreements	391,939	391,939	462,808	462,808

Note 10. Stock and Earnings per Share

Upon opening, the Bank issued 1,900,000 shares of common stock. The Bank is authorized to issue 20,000,000 shares of common stock with a par value of $5 per share and 5,000,000 shares of preferred stock with no par value.

Earnings per Share

The following table details the computation of basic earnings per share for the periods ended December 31, 2011 and 2010:

	2011	2010
Net income available to common shareholders	$ 293,940	$ 186,569
Weighted average shares outstanding, basic	1,900,000	1,900,000
Effect of dilutive securities	-	-
Weighted average shares outstanding, diluted	1,900,000	1,900,000
Basic earnings per common share	$ 0.15	$ 0.10
Dilutive earnings per common share	$ 0.15	$ 0.10

No dilutive effect was considered for the 197,604 and 220,104 stock options outstanding at December 31, 2011 and 2010, respectively, as these options had no intrinsic value at either date.

Note 11. Income Taxes

Operating Loss Carryforwards

The Bank has a loss carryforward of $1,202,050 for federal and state income tax purposes that may be used to offset future taxable income. If not previously utilized, the federal and state loss carryforward will begin to expire in 2028 and 2023, respectively.

Current and Deferred Income Tax Components

The components of income tax (benefit) expense (substantially all federal) for the periods ended December 31, 2011 and 2010 are as follows:

	2011	2010
Current	$ -	$ -
Deferred expense (benefit)	298,723	117,062
Deferred tax asset valuation allowance change	-	-
Income tax (benefit) expense	$ 298,723	$ 117,062

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2011 and 2010 are summarized as follows:

	2011	2010
Deferred tax assets		
Allowance for loan losses	$ 527,998	$ 425,997
Net operating losses	489,472	1,037,482
Pre-opening expenses	292,003	318,550
Supplemental executive retirement plan accrual	219,833	147,458
Non-qualified stock option compensation expense	68,792	44,500
Other	115,100	23,867
Deferred tax asset	1,713,198	1,997,854
Deferred tax liabilities		
Unrealized gains on securities	203,741	55,851
Deferred loan costs	177,763	165,191
Depreciation	41,111	39,967
Other	35,958	35,607
Deferred tax liability	458,573	296,616
Deferred tax asset valuation allowance	-	-
Net deferred tax asset	$ 1,254,625	$ 1,701,238

Note 12. Commitments and Contingencies

Litigation

In the normal course of business, the Bank may be involved in various legal proceedings. The Bank was involved in foreclosure proceedings during the fiscal years ended December 31, 2011 and 2010.

Financial Instruments with Off-balance-sheet Risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional financial commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

At December 31, 2011 and 2010, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2011	2010
Commitments to grant loans	$ 3,567,986	$ 4,339,164
Unfunded commitments under lines of credit	$ 9,177,749	$ 9,073,272
Standby letters of credit	$ 554,937	$ 426,606

Concentrations of Credit Risk

Substantially all of the Bank's loans and commitments to extend credit have been granted to customers in the Bank's market area and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4. The Bank's primary focus is toward consumer and small business transactions, and accordingly, it does not have a significant number of loans or commitments to any single borrower or group of related borrowers in excess of $2,000,000.

The Bank from time to time may have cash and cash equivalents on deposit with financial institutions that exceed federally-insured limits.

Note 13. Regulatory Restrictions

Dividends

The Bank, as a North Carolina banking corporation, may pay dividends only out of undivided profits (retained earnings) as determined pursuant to North Carolina General Statutes Section 53-87. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure financial soundness of the bank.

Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets, as all those terms are defined in the applicable regulations. As of December 31, 2011 and 2010, the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2011 and 2010, the Bank met the criteria to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios. These minimum requirements as well as the Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(thousands)			
December 31, 2011						
Total Capital						
(to Risk-Weighted Assets)	$ 18,913	19.0%	$ 7,945	8.0%	$ 9,931	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 17,665	17.8%	$ 3,973	4.0%	$ 5,959	6.0%
Tier I Capital						
(to Average Assets) [1]	$ 17,665	12.9%	$ 5,470	4.0%	$ 6,838	5.0%
December 31, 2010						
Total Capital						
(to Risk-Weighted Assets)	$ 18,298	17.2%	$ 8,501	8.0%	$ 10,626	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 16,969	16.0%	$ 4,250	4.0%	$ 6,376	6.0%
Tier I Capital						
(to Average Assets) [1]	$ 16,969	13.3%	$ 5,106	4.0%	$ 6,383	5.0%

[1] The amounts listed for Minimum Capital Requirement (4.0%) and Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions (5.0%) are the general regulatory limits. The Bank, as part of its charter, agreed to maintain 8.0% of Tier 1 Capital to Average Assets for the opening de novo period (originally the first three years of operations but was extended by regulation to the first seven years of operations) which required Tier 1 Capital of $10,941,000 and $10,213,000 at December 31, 2011 and 2010, respectively.

Note 14. Transactions with Related Parties

The Bank has entered into transactions with its directors, significant shareholders and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Annual activity consisted of the following:

	2011	2010
Beginning balance	$ 805,282	$ 1,382,276
New loans and advances	86,929	325,629
Repayments	(184,280)	(902,623)
Ending balance	$ 707,931	$ 805,282

Deposits and repurchase agreements from related parties held by the Bank at December 31, 2011 and 2010 amounted to $5,087,727 and $8,431,862, respectively.

Note 15. Employee Benefit Plans

Defined Contribution Plan

The Bank maintains a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). The plan covers substantially all full-time employees who are 21 years of age and have completed 90 days of service. Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. In addition, the Bank matches certain contributions and may make additional contributions at the discretion of the Board of Directors. The Bank's contribution was $43,092 and $43,722 for the years ended December 31, 2011 and 2010, respectively.

Supplemental Executive Retirement Plan

The Bank maintains a Supplemental Executive Retirement Plan ("SERP") for its President and Chief Executive Officer, Joe I. Marshall, Jr., to which benefits will be contributed to the extent permitted by Section 409A of the Code upon the Bank obtaining profitability. The SERP provides for an annual retirement benefit of 70% of Mr. Marshall's average annual compensation from the Bank during the three calendar years preceding his retirement, continuing on a monthly basis thereafter for a period of 20 years and vesting 10% annually from the date the agreement was signed and 100% upon a Change in Control. The expense related to funding the SERP was $187,724 and $165,828 for the years ended December 31, 2011 and 2010, respectively.

Stock Option Plans

The Bank has adopted both an Incentive Stock Option Plan and a Nonstatutory Stock Option Plan (each a "Plan" and collectively, the "Plans"). Under each Plan up to 190,000 shares may be issued for a total of 380,000 shares. Options granted under both Plans expire no more than 10 years from the date of grant. The exercise price for each option shall be set by the Board of Directors at the date of grant, but shall not be less than 100% of fair market value of the related stock at the date of the grant. Under both Plans, option vesting terms shall be set by the Board of Directors at the date of grant. All options granted so far under the Plans vest annually over a five-year period from the date of the grant.

Compensation expense related to options granted was $116,954 and $119,242 for the years ended December 31, 2011 and 2010, respectively.

The weighted average fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during 2011 and 59,810 stock options granted during 2010. There were no options exercised during the years ended December 31, 2011 and 2010.

Note 15. Employee Benefit Plans, continued

There were no options exercised during the years ended December 31, 2011 and 2010. Activity under each Plan during the years ended December 31, 2011 and 2010 is summarized below:

	Incentive Plan		Nonstatutory Plan	
	Available for Grant	Granted	Available for Grant	Granted
Balance December 31, 2009	88,000	102,000	109,810	80,190
Forfeited	-	-	21,896	(21,896)
Granted	(10,000)	10,000	(49,810)	49,810
Exercised	-	-	-	-
Balance December 31, 2010	78,000	112,000	81,896	108,104
Forfeited	22,500	(22,500)	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
Balance December 31, 2011	100,500	89,500	81,896	108,104

A summary of option activity under the Plans during the periods ended December 31, 2011 and 2010 is presented below:

	Options Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value [(1)]
Outstanding at December 31, 2009	182,190	$ 11.00	8.73 years	$ -
Granted	59,810	9.63		
Forfeited	(21,896)	10.38		
Exercised	-	-		
Outstanding at December 31, 2010	220,104	$ 10.69	8.11 years	$ -
Exercisable at December 31, 2010	69,779	$ 11.00	7.72 years	$ -
Granted	-	$ -		
Forfeited	(22,500)	11.00		
Exercised	-	-		
Outstanding at December 31, 2011	197,604	$ 10.65	7.18 years	$ -
Exercisable at December 31, 2011	99,680	$ 10.86	6.93 years	$ -

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2011, 2010 and 2009. This amount changes based on changes in the market value of the Bank's stock. The fair value (present value of the estimated future benefit to the option holder) of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

Note 15. Employee Benefit Plans, continued

Options vested during 2011 and 2010 totaled 38,901 and 33,342 shares, respectively. Total unrecognized compensation expense related to outstanding non-vested stock options will be recognized over the following periods:

2012	$	116,703
2013		116,718
2014		30,177
2015		30,174
2016		-
Total	$	293,772

Note 16. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Bank has reviewed events occurring through the date of this filing and one subsequent event has occurred requiring accrual or disclosure in these financial statements. Subsequent to the Press Release filed on Form 8-K dated January 30, 2012, the Bank became aware of a correction needed in the amount of $118,014 due to an over accrual of non-taxable noninterest income which resulted in a reduction in net income from the previously reported $411,954 to $293,940. This change resulted in a decrease in earnings per share from $0.22 to $0.15.

Board of Directors and Employees

Board of Directors

Kelley K. Earnhardt (Chairman)	JR Motorsports
Abigail M. Jennings	Lake Norman Realty
Joe I. ("Jim") Marshall, Jr.	blueharbor bank
Wm. Bynum Marshall	Lowe's Companies
Clarence E. ("Rock") Pickard, Jr.	Central Carolina Insurance Agency
William P. ("Bill") Pope (Vice-Chairman)	Pope, McMillan, Kutteh, Privette, Edwards & Schieck, P.A.
Riley B. ("R. B.") Sloan, Jr.	Pedernales Electric Cooperative, Inc.
Louis G. Stanfield, Jr.	Stanfield & Blackman, LLC and Stanfield & Company, LLC
James R. ("Rick") Teague	Potts, Combs, Rhyne & Teague, P.A.

Employees

Joe I. ("Jim") Marshall, Jr.	President and Chief Executive Officer
James W. Clement	Senior Vice President and Chief Credit Officer
Richard E. ("Rick") Eveson	Senior Vice President and Senior Consumer Lender
Carl T. Larson	Senior Vice President and Chief Financial Officer
Chris L. Nichols	Senior Vice President and Senior Commercial Lender
Stewart T. Heath	Vice President and Commercial Lender
Danielle H. Johnson	Vice President and Deposit Operations Manager
John G. Reeves	Vice President and Commercial Lender
Nancy M. Sweet	Vice President and Branch Manager
Elizabeth L. ("Beth") Mills	Assistant Vice President
Kelly S. Yost	Corporate Secretary and Executive Assistant
Lee Ann Bettis	Operations and IT Specialist
Jennifer L. Dugan	Mortgage Lending Specialist
Maria C. ("Christina") Graves	Universal Associate
Shelia L. Lockhart	Universal Associate
Martha D. ("Mardi") Moore	Universal Associate
Eileen A. Ruvolo	Universal Associate
Zerlina J. ("ZZ") Zamora	Universal Associate

Shareholders' Information

Annual Meeting

The 2012 Annual Meeting of Shareholders of the Bank will be held on May 29, 2012, at 2:00 p.m., Eastern Daylight Saving Time, at The Charles Mack Citizen Center, Merchant Room, 215 N. Main Street, Mooresville, North Carolina 28115.

Requests for Information

Requests for information should be directed to Mr. Carl T. Larson, Senior Vice President and Chief Financial Officer, at blueharbor bank, Post Office Box 3546, Mooresville, North Carolina 28117.

Independent Auditors

Elliott Davis, PLLC
Post Office Box 760
Galax, Virginia 24333

Stock Transfer Agent

First Shareholder Services
Post Office Box 29522 – FCC61
Raleigh, North Carolina 27626-0522

Federal Deposit Insurance Corporation

The Bank is a member of the Federal Deposit Insurance Corporation. This Annual Report has not been reviewed, or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

Banking Offices

Main Office (Located at Morrison Plantation)

106 Corporate Park Drive
Mooresville, North Carolina
(704) 662-7700

Huntersville Branch

104 North Statesville Road
Huntersville, North Carolina
(704) 990-7200

Mailing Address

blueharbor bank
Post Office Box 3546
Mooresville, North Carolina 28117

Internet Address

http://www.blueharborbank.com/

Stock Information

Market Information. The Bank's common stock began trading on July 7, 2008. As of March 31, 2012, there were approximately 694 holders of record, not including the number of persons or entities whose stock is held in nominee or street name through various brokerage firms or banks. The Bank's stock is traded on the Over-The-Counter Bulletin Board under the symbol BLHK.OB.

Dividend Information. The Bank has not paid any dividends to shareholders since its formation on January 3, 2008. In determining whether to declare future dividends, the Board of Directors will take into account the Bank's operating results, capital requirements, financial condition, tax considerations and other relevant factors including federal and state regulatory restrictions on dividends. Also, the Bank's ability to declare and pay future cash dividends will be dependent upon, among other things, restrictions imposed by the reserve and capital requirements of federal and state law.