blueharbor bank

2008

Annual Report

2008 Annual Report

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This Annual Report to Shareholders contains forward-looking statements. These 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.

March 25, 2009

Dear Shareholders and Customers:

We are pleased to present to you our first Annual Financial Report representing our initial year of operations. We want to thank each of you for the support you have shown to blueharbor bank by investing in us and trusting us to handle your banking needs. While we know 2008 will be remembered as one of the most difficult times for the banking industry as a whole, we also believe that our simple message of ***More for your money…More personal touch…More local decisions*** is striking a chord that is being well received.

Superior customer service has been a cornerstone of blueharbor's business plan from the start, and data we've collected over our first year in business indicate that we are living up to that goal. In a recent survey of our customers, 82% reported that their customer service experience with us exceeded that of their other banking relationships. And when asked to rate on a scale of 1 to 10 how likely they would be to recommend us to friends and colleagues, a strong predictor of future growth, 86% responded with a 9 or 10. All this really speaks to the top-notch team of bankers we have assembled and the care and passion they share each day for our customers and this company. I am very proud of the job they are doing and we will all strive to continue to establish blueharbor's identity as the number one bank for customer service in the region.

The numbers for 2008 indicate that blueharbor's growth and performance are proceeding according to expectations, even in these tough financial times. We finished our first year of operations on December 31, 2008, with $43.7 million of total assets consisting primarily of $36.9 million of loans. Total deposits and repurchase agreements were $25.2 million. As noted in the following financial statements, we had a loss of $1.9 million for the year, of which $0.6 million was used to fund a reserve for possible losses in the loan portfolio. Losses in the first two to three years of a de novo bank are expected before the bank becomes profitable, and were anticipated in our start-up projections.

Since we are such a new bank and have good capital, we chose not to apply for any government TARP ("Troubled Asset Relief Program") funds. We finished 2008 with a total capital to risk-weighted assets ratio of 51.3%, with 10% being the minimum ratio required for a bank to be considered well capitalized. This ratio will reduce over time as we grow into our capital base, but we are committed to responsibly managing capital to ensure we meet regulatory requirements.

blueharbor's overall credit quality is strong, and we had no non-performing assets or loan charge-offs during 2008. By putting only high-quality assets on the books as we ride out this challenging economic cycle, we are growing your bank at a controlled pace that can be sustained and built upon.

Stock in blueharbor is owned by and large by members of our community for whom blueharbor is part of a long-term commitment. Because of this, our stock trades infrequently and is thus difficult to value. We have seen shares trade at prices ranging from $8.75 to $10.95. We all know that this is a long-term investment and our emphasis at this stage is to lay a solid foundation that will position our shareholders nicely for the future.

We opened our second branch location in Huntersville at the end of November and are looking forward to providing that community with the same top-notch service our Mooresville customers have come to know and expect. We are pleased with our reception there and would love to have you join us on Saturday, April 25th from 10:00 AM to 2:00 PM, for the official Grand Opening of the Huntersville Branch.

From time to time, I e-mail shareholders brief updates to keep you informed of our progress. We also plan to e-mail quarterly earnings information in 2009. Make sure you receive these updates by adding your address to our e-mail list at info@blueharborbank.com, if we don't already have it.

In closing, thank you again for your support of blueharbor bank. If you are already a customer, please tell your friends and family members why you chose blueharbor. If you are not, consider moving your relationship to us; we promise to make the transition painless and easy. We will very soon begin to offer mortgage loans, so think about us for those needs as well. I speak for the Board of Directors, management, and our employees in thanking you for being a part of the blueharbor family. I answer my telephone calls personally so please call me anytime you may have questions or I may be of service.

Sincerely,

Joe I. Marshall, Jr.

Joe I. Marshall, Jr.
President and Chief Executive Officer
(704) 658-3701

Elliott Davis, PLLC
Accountants and Business Advisors

Independent Auditor's Report

Board of Directors and Shareholders
blueharbor bank
Mooresville, North Carolina

We have audited the balance sheet of blueharbor bank as of December 31, 2008 and the related statements of operations, changes in shareholders' equity, and cash flows for the period from January 8, 2008 (opening date) through December 31, 2008. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 as of December 31, 2008, and the results of its operations and its cash flows for the period from January 8, 2008 (opening date) through December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Galax, Virginia
March 25, 2009

Balance Sheet

December 31, 2008

	2008
Assets	
Cash and due from banks	$ 496,882
Federal funds sold	897,180
Cash and cash equivalents	1,394,062
Investment securities available-for-sale	3,032,584
Loans, net of allowance for loan losses of $586,735 for 2008	36,273,974
Property and equipment, net	2,740,499
Accrued income	136,930
Other assets	118,845
Total assets	$ 43,696,894
Liabilities and Shareholders' Equity	
Liabilities	
Deposits:	
Noninterest-bearing	$ 1,093,048
Interest-bearing	21,203,035
Total deposits	22,296,083
Repurchase agreements	2,897,954
Federal funds purchased	252,000
Accrued interest payable	46,786
Other liabilities	116,153
Total liabilities	25,608,976
Commitments and contingencies	-
Shareholders' equity	
Preferred stock, 5,000,000 shares authorized: no shares issued and outstanding at December 31, 2008	-
Common stock, $5 par value; 20,000,000 shares authorized: 1,900,000 shares issued and outstanding at December 31, 2008	9,500,000
Surplus	10,395,207
Retained deficit	(1,862,121)
Accumulated other comprehensive income	54,832
Total shareholders' equity	18,087,918
Total liabilities and shareholders' equity	$ 43,696,894

See Notes to Financial Statements

Statement of Operations

For the period from January 8, 2008 (opening date) through December 31, 2008

	2008
Interest income	
Loans and fees on loans	$ 760,342
Investment securities	48,606
Federal funds sold	323,213
Total interest income	1,132,161
Interest expense	
Deposits	386,379
Borrowings	6,075
Total interest expense	392,454
Net interest income	739,707
Provision for loan losses	586,735
Net interest income after provision for loan losses	152,972
Noninterest income	
Service charges on deposit accounts	1,140
Other service charges and fees	22,005
Gain on sale/paydown of securities	30
Other income	170
Total noninterest income	23,345
Noninterest expense	
Salaries and employee benefits	1,139,451
Occupancy expense	237,758
Equipment expense	115,499
Data processing expense	158,161
Professional services	146,909
Advertising expense	64,791
Other expense	175,869
Total noninterest expense	2,038,438
Net loss	$ (1,862,121)
Basic loss per common share	$ (.98)
Diluted loss per common share	$ (.98)
Weighted average common shares outstanding	1,900,000
Weighted average dilutive common shares outstanding	1,900,000

See Notes to Financial Statements

Statement of Changes in Shareholders' Equity

For the period from January 8, 2008 (opening date) through December 31, 2008

	Common Shares	Common Amount	Surplus	Retained (Deficit)	Accumulated Other Comprehensive Income	Total
Comprehensive loss						
Net loss	-	$ -	$ -	$ (1,862,121)	$ -	$ (1,862,121)
Net change in unrealized appreciation on investment securities available-for-sale	-	-	-	-	54,832	54,832
Total comprehensive loss						(1,807,289)
Pre-opening expenses, net	-	-	(1,032,812)	-	-	(1,032,812)
Shares issued pursuant to pre-opening stock subscriptions	1,900,000	9,500,000	11,400,000	-	-	20,900,000
Stock based compensation	-	-	28,019	-	-	28,019
Balance, December 31, 2008	1,900,000	$ 9,500,000	$10,395,207	$ (1,862,121)	$ 54,832	$ 18,087,918

See Notes to Financial Statements

Statement of Cash Flows

For the period from January 8, 2008 (opening date) through December 31, 2008

	2008
Cash flows from operating activities	
Net loss	$ (1,862,121)
Adjustments to reconcile net loss to	
net cash used by operations:	
Depreciation and amortization	203,967
Provision for loan losses	586,735
Accretion of discount on securities, net of amortization	2,362
Gain on sale of investment securities	(30)
Stock based compensation	28,019
Changes in assets and liabilities:	
Accrued income	(136,930)
Other assets	(118,845)
Accrued interest payable	46,786
Other liabilities	116,153
Net cash used by operating activities	(1,133,904)
Cash flows from investing activities	
Purchases of investment securities	(3,004,760)
Principal payments on investment securities	24,676
Net increase in loans	(36,860,709)
Purchases of property and equipment	(2,944,466)
Net cash used in investing activities	(42,785,259)
Cash flows from financing activities	
Net increase in deposits	22,296,083
Net proceeds from issuance of common stock	19,867,188
Proceeds from repurchase agreements	2,897,954
Federal funds purchased	252,000
Net cash provided by financing activities	45,313,225
Net increase in cash and cash equivalents	1,394,062
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	$ 1,394,062
Supplemental disclosure of cash flow information	
Interest paid	$ 345,668

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 and commenced operations on January 8, 2008. The Bank currently serves Iredell County, North Carolina and surrounding areas through its banking offices in Mooresville and Huntersville, North Carolina. 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 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 Board of Directors.

Pre-opening Expenses

In accordance with applicable North Carolina banking regulations, the Bank charged its results of operations prior to opening date, January 8, 2008, to surplus. Generally accepted accounting principles require such operating results be charged to retained earnings. Interest income on bank deposits and expenses prior to opening amounted to $240,980 and $1,273,792, respectively. The classification of net pre-opening expenses of $1,032,812 in surplus rather than retained earnings is required by North Carolina banking regulations and does not affect the Bank's total shareholders' equity.

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 accounting principles generally accepted in the United States of America, 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 "federal funds sold."

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

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.

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
Land and leasehold improvements	3-10
Furniture and equipment	3-7

Foreclosed Properties

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 loss on foreclosed real estate. The Bank held no foreclosed properties for the period presented.

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.

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 income (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 (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (loss) 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 (Loss) 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

Annual comprehensive income 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

Statement of Financial Accounting Standards ("SFAS") No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, 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. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its 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 due from banks: The carrying amounts reported in the balance sheet for cash and due from banks approximate their fair values.

Federal funds sold: The carrying amounts reported in the balance sheet for federal funds sold 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 December 2007, the Financial Accounting Standards Board "FASB" issued SFAS No. 141(R), "Business Combinations," ("SFAS 141(R)") which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisitions by the Bank taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Bank will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets," ("FSP 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other U.S. generally accepted accounting principles. This FSP was effective for the Bank on January 1, 2009 and had no material impact on the Bank's financial position, results of operations or cash flows.

Notes to Financial Statements

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

Recent Accounting Pronouncements, continued

In May, 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 is effective November 15, 2008. The FASB has stated that it does not expect SFAS 162 will result in a change in current practice. The application of SFAS 162 had no effect on the Bank's financial position, results of operations or cash flows.

FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," ("FSP FIN 48-3") was issued in December 2008 to defer the effective date of FIN 48 for nonpublic enterprises to the annual financial statements for fiscal years beginning after December 15, 2008. Nonpublic companies are defined in amended SFAS 109, paragraph 289 as an enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), or (c) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities. As a nonpublic entity, the Bank is not required to adhere to FIN 48 for the year ended December 31, 2008, however the Bank is required to disclose their current accounting policy for uncertain tax positions. We do not expect the adoption of FIN 48 to have a significant impact on our financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Bank's financial position, results of operations and 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 $672,671 for the period including December 31, 2008.

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, 2008 are:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2008				
Government sponsored enterprises	$ 2,003,614	$ 24,826	$ -	$ 2,028,440
Mortgage-backed securities	974,138	30,006	-	1,004,144
	$ 2,977,752	$ 54,832	$ -	$ 3,032,584

All securities were pledged at December 31, 2008 for internal repurchase agreement accounts.

The Bank had no realized gains or losses for the period ended December 31, 2008.

There were no unrealized losses in the Bank's available-for-sale investment securities portfolio as of December 31, 2008.

Note 3. Securities, continued

The scheduled maturities of securities at December 31, 2008 were as follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in less than one year	$ 1,007,630	$ 1,025,000
Due in one to three years	995,984	1,003,440
Due after ten years	974,138	1,004,144
	$ 2,977,752	$ 3,032,584

Note 4. Loans Receivable

The major components of loans in the balance sheet at December 31, 2008 are as follows:

	2008
Commercial	$ 3,651,002
Real estate:	
Construction and development	3,109,745
Residential, 1-4 families	13,116,918
Nonfarm nonresidential	14,600,212
Consumer and overdrafts	2,040,245
Multi-family	349,995
	36,868,117
Unearned Income	(7,408)
Allowance for loan losses	(586,735)
Loans, net of allowance	$ 36,273,974

No loans were pledged at December 31, 2008.

Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	2008
Balance at beginning of period	$ -
Provision for loan losses charged to operations	586,735
Recoveries of amounts charged off	-
Amounts charged off	-
Balance at end of period	$ 586,735

There were no loans impaired, nonaccrual or past due 90 days or more and still accruing interest at December 31, 2008 or during the period then ended.

Note 6. Property and Equipment

Components of Property and Equipment

Components of property and equipment and total accumulated depreciation at December 31, 2008 are as follows:

	2008
Land, buildings and improvements	$ 2,208,000
Furniture and equipment	736,466
Property and equipment, total	2,944,466
Less accumulated depreciation	203,967
Property and equipment, net of depreciation	$ 2,740,499

Leases

In June 2008, the Bank entered into an operating lease for its branch facility in Huntersville. Total rent expense was $38,705 for 2008.

In September 2007, the Bank entered into an operating lease on the temporary bank building in Mooresville. Total rent expense was $69,174 for 2008.

In September 2008, the Bank entered into an operating lease to rent a building for storage. Total rent expense was $500 for 2008.

Future minimum lease payments are as follows:

2009	$ 182,636
2010	177,888
2011	116,534
2012	118,625
	$ 595,683

Note 7. Deposits

The aggregate amount of time deposits in denominations of one hundred thousand dollars or more at December 31, 2008 was $6,152,640. At December 31, 2008, the scheduled maturities of time deposits are as follows:

	Less Than $100,000	$100,000 or More	Total
2009	$ 2,905,990	$ 3,664,240	$ 6,570,230
2010	455,952	2,241,267	2,697,219
Thereafter	136,852	247,133	383,985
	$ 3,498,794	$ 6,152,640	$ 9,651,434

Note 8. Borrowings

Lines of Credit

The Bank has established credit facilities to provide additional liquidity if and as needed. These consist of unsecured lines of credit with correspondent banks totaling $13,000,000. At December 31, 2008 there was $252,000 outstanding under these credit facilities.

Note 9. Fair Value of Financial Instruments

Effective upon commencement of operations, the Bank adopted SFAS No. 157, "Fair Value Measurements", which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. SFAS 157 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, 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).

SFAS 157 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. SFAS 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair Value Hierarchy

SFAS 157 establishes three levels of inputs that may be used to measure fair value:

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.

Loans

At December 31, 2008, management believes the carrying value of loans approximates estimated market value.

Federal Funds Sold

Federal funds sold consist of overnight loans to other financial institutions and mature within one to three days. At December 31, 2008, management believes the carrying value of federal funds sold approximates estimated market value.

Deposits

The fair value of demand and savings deposits is the amount payable at the reporting date. Additionally, management believes the carrying value of time deposits at December 31, 2008 approximates fair value.

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. Loans which are deemed to be impaired are valued according to SFAS 114, "Accounting by Creditors for Impairment of a Loan." 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. The Bank had no impaired loans at December 31, 2008.

Foreclosed Assets

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are 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. The Bank had no foreclosed assets at December 31, 2008.

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.

FASB Staff Position No. FAS 157-2 delays the implementation of SFAS 157 until the first quarter of 2009 with respect to goodwill, other intangible assets, real estate and other assets acquired through foreclosure and other non-financial assets measured at fair value on a nonrecurring basis. Below is a summary as of December 31, 2008:

Recurring Basis	Total	Level 1	Level 2	Level 3
Investment in securities available-for-sale	$ 3,032,584	$ -	$ 3,032,584	$ -
Total assets at fair value	$ 3,032,584	$ -	$ 3,032,584	$ -

Nonrecurring Basis	Total	Level 1	Level 2	Level 3
Impaired loans	$ -	$ -	$ -	$ -
Other real estate owned	-	-	-	-
Total assets at fair value	$ -	$ -	$ -	$ -

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.

Earnings (Loss) per Share

The following table details the computation of basic earnings (loss) per share for the period ended December 31, 2008:

	2008
Net income (loss) available to common shareholders	$ (1,862,121)
Weighted average shares outstanding,	1,900,000
Effect of dilutive securities	-
Weighted average shares outstanding, diluted	1,900,000
Basic earnings (loss) per common share	$ (.98)
Dilutive earnings (loss) per common share	$ (.98)

No dilutive effect was considered for the 182,190 stock options outstanding at December 31, 2008 due to the anti-dilutive effect they would produce.

Note 11. Income Taxes

Operating Loss Carryforwards

The Bank has a loss carryforward of approximately $1,372,000 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 expense (substantially all federal) for the period ended December 31, 2008 is as follows:

	2008
Current	$ -
Deferred benefit	(1,095,538)
Deferred tax asset valuation allowance change	1,095,538
	$ -

Note 11. Income Taxes, continued

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2008 are summarized as follows:

	2008
Deferred tax assets	
Allowance for loan losses	$ 209,487
Net operating losses	528,923
Pre-opening expenses	371,644
Other	7,165
Deferred tax asset	1,117,219
Deferred tax liabilities	
Unrealized gains on securities	21,140
Depreciation	541
Deferred tax liability	21,681
Deferred tax asset valuation allowance	(1,095,538)
Net deferred tax asset	$ -

Note 12. Commitments and Contingencies

Litigation

In the normal course of business, the Bank may be involved in various legal proceedings. The Bank was not involved in any litigation during the period ended December 31, 2008.

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. The Bank had no such commitments at December 31, 2008.

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.

Note 12. Commitments and Contingencies, continued

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 credits 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.

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. Additionally, dividends for the first three years of operations of new banks are explicitly prohibited by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation unless special exceptions are made.

Note 13. Regulatory Restrictions

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, 2008, the Bank met all capital adequacy requirements to which it was subject.

Note 13. Regulatory Restrictions, continued

Capital Requirements, continued

As of December 31, 2008, 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 as set forth in the following table:

The Bank's actual capital amounts and ratios are presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(thousands)			
December 31, 2008						
Total Capital						
(to Risk-Weighted Assets)	$ 18,484	51.3%	$ 2,881	8.0%	$ 3,601	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 18,033	50.1%	$ 1,440	4.0%	$ 2,161	6.0%
Tier I Capital						
(to Average Assets)	$ 18,033	43.2%	$ 1,672	4.0%	$ 2,090	5.0%

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.

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. The plan covers substantially all 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 must match certain contributions and may make additional contributions at the discretion of the Board of Directors. The Bank's contribution was $9,919 for the period ended December 31, 2008.

Stock Option Plans

The Bank has adopted both an Incentive Stock Option Plan and a Nonstatutory Stock Option Plan. 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 date of grant. Option exercise price under both plans 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, options vest over a five year period from the date of the grant.

Compensation cost charged to income was $28,019 for the period ended December 31, 2008.

Note 15. Employee Benefit Plans, continued

Stock Option Plans, continued

The weighted average fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average estimated fair values of stock option grants and the assumptions that were used in calculating such fair values were based on estimates at the date of grant as follows:

	2008
Weighted average fair value of options granted during the year	$ 2.89
Assumptions:	
Average risk free interest rate	1.87%
Average expected volatility	20.00%
Expected dividend rate	0.00%
Expected life in years	7.0

There were no options exercised during the year ended December 31, 2008.

Activity under the plan during the period ended December 31, 2008 is summarized below:

	Incentive Plan		Nonstatutory Plan	
	Available for Grant	Granted	Available for Grant	Granted
Beginning balance	190,000	-	190,000	-
Forfeited	15,000	(15,000)	-	-
Granted	(117,000)	117,000	(80,190)	80,190
Exercised	-	-	-	-
Balance December 31, 2008	88,000	102,000	109,810	80,190

A summary of option activity under the plans during the period ended December 31, 2008 is presented below:

	Options Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value [(1)]
Outstanding at January 8, 2008	-	$ -		$ -
Granted	197,190	11.00		
Forfeited	(15,000)	11.00		
Exercised	-	-		
Outstanding at December 31, 2008	182,190	$ 11.00	9.74 years	$ -
Exercisable at December 31, 2008	-	$ -	-	$ -

(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, 2008. 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

Stock Option Plans, continued

No options vested in 2008. Total unrecognized compensation cost related to outstanding non-vested stock options will be recognized over the following periods:

2009	$ 109,314
2010	109,314
2011	109,314
2012	109,314
2013	81,295
Total	$ 518,551

Board of Directors and Employees

Board of Directors

Kelley Earnhardt Elledge	JR Motorsports
Phil Morgan Gandy, Jr. (Chairman)	Gandy Communities
Abigail M. Jennings	Lake Norman Realty
Joe I. Marshall, Jr. (Jim)	blueharbor bank
Wm. Bynum Marshall	Lowe's Companies
Clarence Earl Pickard, Jr. (Rock)	Central Carolina Insurance Agency
William P. Pope	Pope, McMillan, Kutteh, Privette, Edwards & Schieck, P.A.
Riley Buren Sloan, Jr. (R.B.) (Vice Chairman)	City of Vero Beach, Florida
Louis Garrett Stanfield, Jr.	Stanfield Cox & Blackman, LLC and Nichols & Standfield, LLC
James Richard Teague (Rick)	Potts, Combs, Rhyne & Teague, P.A.

Employees

Joe I. Marshall, Jr. (Jim)	President and Chief Executive Officer
James W. Clement	Senior Vice President and Chief Credit Officer
Richard E. Eveson (Rick)	Senior Vice President and Senior Consumer Lender
Carl T. Larson	Senior Vice President and Chief Financial Officer
William H. Lynch (Bill)	Senior Vice President and Senior Lending Officer
Brent W. Dugan	Vice President and Branch Manager
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
Kelly S. Yost	Corporate Secretary and Executive Assistant
David C. Bowles	Universal Associate
Susan C. Cloninger	Universal Associate
M. Christina Graves	Universal Associate
Shelia L. Lockhart	Universal Associate
Elizabeth L. Mills (Beth)	Loan Operations Associate
Martha D. Moore (Mardi)	Universal Associate
Holly E. Myers	Universal Associate
Deborah B. Newman	Operational Specialist
Zerlina J. Zamora (ZZ)	Universal Associate

Shareholders Information

Annual Meeting

The 2009 Annual Meeting of Shareholders of blueharbor bank will be held on May 18, 2009, at 11:00 a.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
Post Office Box 760
Galax, Virginia 24333

Stock Transfer Agent

First Citizens Bank & Trust Company
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 financial statement 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 Trading Symbol

BLHK.OB

SERVICE VALUES

I AM PROUD TO BE BLUEHARBOR BANK.

1. I **build strong relationships** and create loyal blueharbor bank Clients for life.
2. I strive to make the complexities of banking **simple** for our Clients to understand.
3. I go a step beyond to anticipate and fulfill the expressed and unexpressed **needs of our Clients**.
4. I am **empowered** to make informed, responsible decisions and do whatever it takes to exceed Client expectations.
5. I am an **ambassador** of blueharbor bank in and out of the workplace.
6. I continually seek opportunities to **innovate and improve** the blueharbor bank experience.
7. I am always **positive** and think success.
8. I own and quickly find creative **solutions** for Client problems.
9. I recognize that the success of our company is dependent upon our ability to work as a **team**.
10. I never stop **learning**. I have the opportunity to continuously grow and acquire new skills.
11. I **communicate** with others effectively by seeking first to understand, then to be understood.
12. I take pride and care in my **personal appearance**, language, and behavior and will work to maintain a clutter free work environment.
13. I seek to make a difference in the **community** I serve.
14. I am a faithful **steward** of the Clients and Shareholders who have placed their financial trust in blueharbor bank.

blueharbor
bank

www.blueharborbank.com

More for your money…More personal touch…More local decisions