blueharbor
bank

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ANNUAL REPORT

2010 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.

April 11, 2011

Dear Shareholders:

I am pleased to report that blueharbor bank had a solid 2010 despite the challenges we predicted for our company and the industry in this same letter last year. We made a profit in our third year of operation, all of which have seen an environment of economic peril and regulatory changes unlike any we have seen. We continue to be very conscious of the capital that you have entrusted to us. Our culture of conservative values has never been stronger as we treat your entrusted capital as if it were our own. Our board of directors and officers have a sizable stake invested in this capital as well, so we try to conserve and make prudent decisions with it.

Though market forces have been unkind to financial stocks in general over the past year, we have been treated no differently. Our closing price has ranged from a high of $10.01 to a low of $5.05 during the year that saw trading volume that can best be described as light. The old adage that all boats go down during a low tide explains it well. We are pleased to note that our book value, however, increased from $9.52 at December 31, 2009 to $9.72 as of December 31, 2010. This book value per share we think represents a steady barometer of consistency in the face of these trying times.

Other barometers of performance can be found in the Federal Financial Institutions Examination Council produced Uniform Bank Performance Report ("UBPR"). These UBPR reports allow us to compare our performance against our peer group of the eighty-two banks that also opened in 2008 throughout the United States and have assets of less than $750 million.

As of the December 31, 2010 UBPR reports (see included table), our net income as a percentage of total assets was 0.15% versus a peer group net loss of (0.33%). One of the drivers of this favorable position is our noninterest expense control. Our December 31, 2010 UBPR noninterest expense as a percentage of total asset was 2.63% compared to our peer group of 3.70%. A large component of this favorable position to peers on noninterest expense is due to our personnel expense and number of employees. Our personnel expense as a percentage of average assets is 1.30% compared to the peer group average of 1.98%. Those numbers are bolstered by a lower average personnel expense per employee and greater assets per employee compared to our peers. The UBPR reports also note our favorable position versus our peer group in relation to overall lower operating expenses, occupancy expenses and efficiency ratios.

UBPR Comparison as of December 31, 2010

Description	blueharbor bank	2008 Peer Avg
Interest Income*	4.59%	4.61%
Interest Expense*	1.33%	1.23%
Net Interest Income*	3.26%	3.39%
Noninterest Income*	0.34%	0.32%
Noninterest Expense*	2.63%	3.70%
Provision for Quarter*	0.76%	0.56%
Net Income as a % of total assets	0.15%	-0.33%
Allowance for Loan and Lease Losses to Gross Loans	1.43%	1.56%
Net Loans & Leases to Total Assets	75.74%	68.50%
Personnel Expense to Total Average Assets	1.30%	1.98%
Average Personnel Expense per Employee ($,000)	$ 86.26	$ 95.64
Assets Per Employee ($ million)	$ 6.86	$ 5.64
Occupancy Expense to Total Average Assets	0.40%	0.48%
Other Operating Expenses to Total Average Assets	0.93%	1.19%
Efficiency Ratio	73.09%	98.01%
Demand Deposits to Total Average Assets	4.30%	9.05%
Core Deposits to Total Average Assets	71.04%	69.04%
Cost of Total Interest Bearing Deposits	1.66%	1.61%
Tax equivalent Yield on Total Investment Securities	3.17%	2.91%
Tax equivalent Yield on Total Loans & Leases	5.33%	6.08%

* - taxable equivalent as a percentage of total average assets.

Source: http://www.ffiec.gov/ubpr.htm

Our capital ratios continue to exceed regulatory guidelines by wide margins. This deep pool of capital will allow us to weather the financial conditions we currently are under and grow solid assets in the future. Tier 1 risk-based capital as of December 31, 2010 was 16.1%, far ahead of the 6.0% threshold set by the FDIC to be well-capitalized.

Challenges abound to deploy this capital safely in the current economy. The markets we serve have seen commercial and residential real estate values plummet in some instances by up to 50%. We have experienced some losses and will see more in 2011 due to real estate values softening. In spite of the current real estate market conditions, we continue to be optimistic about our future and look to grow by adding quality loans to our balance sheet. To assist in this growth, we have beefed up our commercial lending team with specific skills in the SBA guaranteed loan areas and commercial and industrial expertise.

Very soon we will be rolling out the ability for clients to open and fund deposit accounts online. Our research tells us that these online conveniences are what customers are seeking in their financial institution relationship.

Our associates continue to give their time and resources through dozens of local church, civic and charitable endeavors. I am proud of the way we give back and in many respects I truly believe community banks help build better communities. These same associates, doing the little things that add up to big things, are why in the Mooresville 28117 zip code market, we are now second in deposit share out of 18 different financial institutions.

In closing I want to thank you for your continued support. We have a great group of board members and associates leading this bank forward during some challenging times. We will continue to be conservative and prudent with our capital looking for the proper opportunities to deploy it. We want to be the best at what we do and are committed to give you our best each and every day!

Sincerely,

Joe I. Marshall, Jr.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
blueharbor bank
Mooresville, North Carolina

We have audited the balance sheets of blueharbor bank (the "Bank") as of December 31, 2010 and 2009 and the related statements of operations, 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 audit 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 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 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, 2010 and 2009, and the results of their operations and their 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
April 7, 2011

Balance Sheets

December 31, 2010 and 2009

	2010	2009
Assets		
Cash and due from banks	$ 6,457,410	$ 3,228,974
Interest bearing deposits	82,078	-
Cash and cash equivalents	6,539,488	3,228,974
Investment securities available-for-sale	16,752,302	12,622,686
Federal Home Loan Bank stock	313,900	161,400
Loans, net of allowance for loan losses of $1,437,174 for 2010 and $1,561,840 for 2009	98,860,480	92,655,048
Property and equipment, net	2,297,789	2,474,296
Accrued interest receivable	339,221	337,223
Other real estate owned	3,132,324	187,352
Other assets	2,105,480	2,331,276
Total assets	$ 130,340,983	$ 113,998,255
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 5,983,495	$ 4,082,600
Interest-bearing	104,746,722	89,651,081
Total deposits	110,730,217	93,733,681
Repurchase agreements	462,808	583,877
Federal funds purchased	-	1,040,000
Accrued interest payable	92,314	125,772
Other liabilities	588,023	428,462
Total liabilities	111,873,362	95,911,792
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, 5,000,000 shares authorized: no shares issued and outstanding at December 31, 2010 and 2009	-	-
Common stock, $5 par value; 20,000,000 shares authorized: 1,900,000 shares issued and outstanding at December 31, 2010 and 2009	9,500,000	9,500,000
Surplus	10,623,763	10,504,521
Retained deficit	(1,745,156)	(1,931,725)
Accumulated other comprehensive income	89,014	13,667
Total shareholders' equity	18,467,621	18,086,463
Total liabilities and shareholders' equity	$ 130,340,983	$ 113,998,255

See Notes to Financial Statements

Statements of Operations

For the years ended December 31, 2010 and 2009

	2010	2009
Interest income		
Loans and fees on loans	$ 5,257,738	$ 3,511,823
Investment securities	514,076	280,363
Interest bearing deposits	51	796
Federal funds sold	-	9,265
Total interest income	5,771,865	3,802,247
Interest expense		
Deposits	1,655,827	1,402,296
Borrowings	14,311	15,818
Total interest expense	1,670,138	1,418,114
Net interest income	4,101,727	2,384,133
Provision for loan losses	955,967	1,034,909
Net interest income after provision for loan losses	3,145,760	1,349,224
Noninterest income		
Service charges on deposit accounts	140,986	90,750
Mortgage fees	57,937	1,715
Gain on sale/paydown of securities	39,970	5,977
Gain on sale of loans	111,506	-
Other income	10,016	510
Total noninterest income	360,415	98,952
Noninterest expense		
Salaries and employee benefits	1,653,832	1,763,586
Occupancy expense	321,510	414,207
Equipment expense	180,241	208,421
Data processing expense	367,833	272,307
Professional services	141,339	158,131
Advertising expense	70,414	93,742
Regulatory expense	211,414	169,628
Other expense	255,961	233,233
Total noninterest expense	3,202,544	3,313,255
Net income (loss) before income taxes	303,631	(1,865,079)
Income tax expense (benefit)	117,062	(1,795,475)
Net income (loss)	$ 186,569	$ (69,604)
Basic earnings (loss) per common share	$ 0.10	$ (0.04)
Diluted earnings (loss) per common share	$ 0.10	$ (0.04)
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, 2010 and 2009

	Common Shares	Common Amount	Surplus	Retained (Deficit)	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2008	1,900,000	$ 9,500,000	$ 10,395,207	$ (1,862,121)	$ 54,832	$ 18,087,918
Comprehensive loss						
Net loss	-	-	-	(69,604)	-	(69,604)
Net change in unrealized appreciation on investment securities available-for-sale (net of tax of $8,575)	-	-	-	-	(41,165)	(41,165)
Total comprehensive loss						(110,769)
Stock based compensation	-	-	109,314	-	-	109,314
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
Net change in unrealized appreciation on investment securities available-for-sale (net of tax of $47,268)	-	-	-	-	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

See Notes to Financial Statements

Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Net income (loss)	$ 186,569	$ (69,604)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
Depreciation	198,423	319,966
Provision for loan losses	955,967	1,034,909
Accretion of discount on securities, net of amortization	53,476	28,814
Gain on sale of investment securities	(39,970)	(5,977)
Loss on sale of other real estate owned	449	-
Gain on sale of loans	(111,506)	-
Stock based compensation	119,242	109,314
Changes in assets and liabilities:		
Accrued income	(1,998)	(200,293)
Other assets	178,521	(2,221,006)
Accrued interest payable	(33,458)	78,986
Other liabilities	159,561	312,309
Net cash provided by (used in) operating activities	1,665,276	(612,582)
Cash flows from investing activities		
Purchases of investment securities	(11,459,639)	(14,879,132)
Purchases of Federal Home Loan Bank of Atlanta stock	(152,500)	(161,400)
Principal payments on investment securities	2,761,287	4,699,384
Proceeds from sales of investment securities	4,677,853	534,219
Net increase in loans	(12,346,208)	(57,603,335)
Proceeds from sale of loans	2,163,991	-
Proceeds from sale of other real estate owned	186,903	-
Purchases of property and equipment	(21,916)	(53,763)
Net cash used in investing activities	(14,190,229)	(67,464,027)
Cash flows from financing activities		
Net increase in deposits	16,996,536	71,437,598
Net change in repurchase agreements	(121,069)	(2,314,077)
Net change in federal funds purchased	(1,040,000)	788,000
Net cash provided by financing activities	15,835,467	69,911,521
Net increase in cash and cash equivalents	3,310,514	1,834,912
Cash and cash equivalents, beginning	3,228,974	1,394,062
Cash and cash equivalents, ending	$ 6,539,488	$ 3,228,974
Supplemental disclosure of cash flow information		
Interest paid	$ 1,703,596	$ 1,339,128
Income taxes paid	$ -	$ -
Transfer of loans to other real estate	$ 3,132,324	$ 187,352
Change in unrealized gain on investment securities	$ 122,623	$ (32,590)

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.

Pre-opening Expenses

In accordance with applicable North Carolina banking regulations, the Bank charged its results of operations prior to the opening date, January 8, 2008, to surplus. GAAP requires 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 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," "interest bearing deposits," and "federal funds sold."

Notes to Financial Statements

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.

Notes to Financial Statements

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

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 $3,132,324 and $187,352 in foreclosed properties at December 31, 2010 and 2009, respectively.

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 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 (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 (loss) per share is similar to the computation of basic earnings (loss) 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 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 July 2010, the Receivables topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") was amended to require expanded disclosures related to a bank's allowance for credit losses and the credit quality of its financing receivables. The amendments will require the allowance disclosures to be provided on a disaggregated basis. The Bank is required to begin to comply with the disclosures in its financial statements for the year ended December 31, 2010. Disclosures about Troubled Debt Restructurings required by the update have been deferred by FASB in a proposed update. See Note 5.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, change the scope of federal deposit insurance coverage, and impose new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks.

Notes to Financial Statements

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

Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting originator compensation, minimum repayment standards, and pre-payments. Management is actively reviewing the provisions of the Dodd-Frank Act and assessing its probable impact on our business, financial condition, and results of operations.

In August 2010, two updates were issued to amend various U.S. Securities and Exchange Commission ("SEC") rules and schedules pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies and based on the issuance of SEC Staff Accounting Bulletin 112. The amendments related primarily to business combinations and removed references to "minority interest" and added references to "controlling" and "noncontrolling interests(s)". The updates were effective upon issuance but had no impact on the Bank's financial statements.

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 $3,161,557 and $2,818,072 at December 31, 2010 and 2009, 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, 2010 and 2009 are:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
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
2009				
Government sponsored enterprises	$ 6,205,132	$ 21,529	$ 55,938	$ 6,170,723
Mortgage-backed securities	6,395,312	68,719	12,068	6,451,963
	$ 12,600,444	$ 90,248	$ 68,006	$ 12,622,686

The fair value of securities pledged for agreements to repurchase were $1,574,018 and $2,760,024 at December 31, 2010 and 2009, respectively.

The Bank had $39,970 and $5,977 of realized gains on investment securities for the periods ended December 31, 2010 and 2009, respectively. Proceeds from the sale of investment securities were $4,677,853 and $534,219 for the periods ended December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, 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, 2010	
	Amortized Cost	Fair Value
Due in less than one year	$ -	$ -
Due in one to three years	1,180,000	1,183,151
Due in three to five years	-	-
Due in five to ten years	2,994,088	4,684,292
Due after ten years	12,433,349	10,884,859
Total	$ 16,607,437	$ 16,752,302

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, 2010 and 2009 are as follows:

	2010	2009
Commercial	$ 12,228,195	$ 10,890,400
Real estate:		
Construction and development	9,177,304	8,275,762
Residential, 1-4 families	29,963,523	26,026,855
Nonfarm nonresidential	45,543,205	44,389,817
Farmland	315,798	248,640
Consumer and overdrafts	1,116,363	2,556,887
Multi-family	1,813,476	1,869,579
	100,157,864	94,257,940
Deferred loan fees and origination costs, net	139,790	(41,052)
Allowance for loan losses	(1,437,174)	(1,561,840)
Loans, net of allowance	$ 98,860,480	$ 92,655,048

There were $50,496,654 of loans pledged to the Federal Home Loan Bank ("FHLB") of Atlanta at December 31, 2010 to secure an unused $13,000,000 line of credit and $38,065,975 of loans were pledged to the FHLB of Atlanta at December 31, 2009 to secure an unused $9,930,000 line of credit.

Note 5. Allowance for Loan Losses and Credit Quality

An analysis of the allowance for loan losses at December 31, 2010 and 2009 is as follows:

	2010	2009
Balance at beginning of period	$ 1,561,840	$ 586,735
Provision for loan losses charged to operations	955,967	1,034,909
Recoveries of amounts charged off	116,288	-
Amounts charged off	1,196,921	59,804
Balance at end of period	$ 1,437,174	$ 1,561,840

An analysis of impaired loans and other real estate owned at December 31, 2010 and 2009 is as follows:

	2010	2009
Impaired loans	$ 3,230,898	$ 1,627,809
Related allowance for credit losses	$ -	$ 14,942
Interest income recognized on impaired loans	$ 35,369	$ 39,677
Average balance of impaired loans (based on month-end balances)	$ 2,460,884	$ 864,264
Impaired loans with no allowance for credit losses	$ 3,230,898	$ 1,457,227
Nonaccrual loans	$ 2,380,539	$ 170,582
Loans past due 90 days or more and still accruing interest	$ -	$ -
Other real estate owned	$ 3,132,324	$ 187,352

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, 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

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

The following is an analysis presenting impaired loan information by loan class as of 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.

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

- **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.

- **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, 2010 is as follows:

	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, 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

Note 6. Property and Equipment

Components of Property and Equipment

Components of property and equipment and total accumulated depreciation at December 31, 2010 and 2009 are as follows:

	2010	2009
Land	$ 1,677,575	$ 1,677,575
Buildings and improvements	339,777	553,583
Furniture and equipment	740,135	754,949
Property and equipment, total	2,757,487	2,986,107
Less accumulated depreciation	459,698	511,811
Property and equipment, net of depreciation	$ 2,297,789	$ 2,474,296

Depreciation expense was $198,423 and $319,966 for the years ended December 31, 2010 and 2009, respectively.

Leases

In June 2008, the Bank entered into an operating lease for its branch facility in Huntersville. Total rent expense was $114,817 and $112,627 for the fiscal years ended December 31, 2010 and 2009, respectively. In September 2007, the Bank (in its pre-organizational phase) entered into an operating lease on the temporary bank building in Mooresville. Total rent expense was $69,737 and $69,248 for the fiscal years ended December 31, 2010 and 2009, respectively. In September 2008, the Bank entered into an operating lease to rent storage space. Total rent expense was $1,625 and $1,500 for the fiscal years ended December 31, 2010 and 2009, respectively.

Future minimum lease payments are as follows:

2011	$ 186,183
2012	118,450
2013	121,310
2014	124,975
2015	128,023
Thereafter	356,862
	$ 1,035,803

Note 7. Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2010 and 2009 was $26,125,185 and $28,568,361, respectively. At December 31, 2010, the scheduled maturities of time deposits are as follows:

	Less Than $100,000	$100,000 or More	Total
2011	$ 10,399,311	$ 14,284,241	$ 24,683,552
2012	2,338,100	7,744,717	10,082,817
2013	2,711,779	493,347	3,205,126
2014	276,556	3,000,000	3,276,556
2015	743,000	602,880	1,345,880
Thereafter	-	-	-
	$ 16,468,746	$ 26,125,185	$ 42,593,931

Brokered deposits totaled $11.0 million and $6.0 million as of December 31, 2010 and 2009, 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 $13,000,000 for a total of $21,200,000 available. The borrowings under these credit facilities were $0 and $1,040,000 at December 31, 2010 and December 31, 2009, respectively.

Repurchase Agreements

The Bank had securities sold under agreements to repurchase that mature on a daily basis of $462,808 and $583,877 at December 31, 2010 and 2009, respectively. The weighted average interest rate on these agreements were 1.00% and 0.99% at December 31, 2010 and 2009, 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.

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.

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, 2010 and 2009:

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	$ -

As of December 31, 2009:

Recurring Basis	Total	Level 1	Level 2	Level 3
Investment in securities available-for-sale	$ 12,622,686	$ -	$ 12,622,686	$ -
Total assets at fair value	$ 12,622,686	$ -	$ 12,622,686	$ -

Nonrecurring Basis	Total	Level 1	Level 2	Level 3
Impaired loans, net of related allowance for credit losses	$ 1,612,867	$ -	$ 1,612,867	$ -
Other real estate owned	187,352	-	187,352	-
Total assets at fair value	$ 1,800,219	$ -	$ 1,800,219	$ -

Note 9. Fair Value of Financial Instruments, continued

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.

- *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, 2010 and 2009 are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 6,539,488	$ 6,539,488	$ 3,228,974	$ 3,228,974
Investment securities, available-for-sale	16,752,302	16,752,302	12,622,686	12,622,686
FHLB Stock	313,900	313,900	161,400	161,400
Loans, net	98,860,480	99,008,686	92,655,048	94,767,068
Financial liabilities:				
Deposit accounts	110,730,217	110,317,220	93,733,681	94,118,676
Repurchase agreements	462,808	462,808	583,877	583,877
Federal funds purchased	-	-	1,040,000	1,040,000

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 (Loss) per Share

The following table details the computation of basic earnings (loss) per share for the periods ended December 31, 2010 and 2009:

	2010	2009
Net income (loss) available to common shareholders	$ 186,569	$ (69,604)
Weighted average shares outstanding,	1,900,000	1,900,000
Effect of dilutive securities	-	-
Weighted average shares outstanding, diluted	1,900,000	1,900,000
Basic earnings (loss) per common share	$ 0.10	$ (0.04)
Dilutive earnings (loss) per common share	$ 0.10	$ (0.04)

No dilutive effect was considered for the 220,104 and 182,190 stock options outstanding at December 31, 2010 and 2009, respectively.

Note 11. Income Taxes

Operating Loss Carryforwards

The Bank recorded the full benefit of the net deferred tax asset of $1,786,900 in the fourth quarter of 2009 as management determined it was more likely than not that the Bank would be able to utilize the value of the deferred tax asset in future years. The Bank has a loss carryforward of $3,085,443 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, 2010 and 2009 are as follows:

	2010	2009
Current	$ -	$ -
Deferred expense (benefit)	117,062	(707,880)
Deferred tax asset valuation allowance change	-	(1,087,595)
Income tax (benefit) expense	$ 117,062	$ (1,795,475)

Note 11. Income Taxes, continued

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2010 and 2009 are summarized as follows:

	2010	2009
Deferred tax assets		
Allowance for loan losses	$ 425,997	$ 532,404
Net operating losses	1,037,482	1,113,366
Pre-opening expenses	318,550	345,097
Supplemental executive retirement plan accrual	147,458	-
Non-qualified stock option compensation expense	44,500	21,641
Other	23,867	2,272
Deferred tax asset	1,997,854	2,014,780
Deferred tax liabilities		
Unrealized gains on securities	55,851	8,575
Deferred loan costs	165,191	107,513
Depreciation	39,967	87,909
Other	35,607	23,883
Deferred tax liability	296,616	227,880
Deferred tax asset valuation allowance	-	-
Net deferred tax asset	$ 1,701,238	$ 1,786,900

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, 2010 and 2009.

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.

Note 12. Commitments and Contingencies, continued

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, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2010	2009
Commitments to grant loans	$ 4,339,164	$ 4,884,130
Unfunded commitments under lines of credit	$ 9,073,272	$ 5,392,339
Standby letters of credit	$ 426,606	$ 574,146

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. 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.

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, 2010 and 2009, the Bank met all capital adequacy requirements to which it was subject.

Note 13. Regulatory Restrictions, continued

As of December 31, 2010 and 2009, 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, 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%
December 31, 2009									
Total Capital (to Risk-Weighted Assets)	$	17,624	18.2%	$	7,755	8.0%	$	9,694	10.0%
Tier I Capital (to Risk-Weighted Assets)	$	16,408	16.9%	$	3,877	4.0%	$	5,816	6.0%
Tier I Capital (to Average Assets) [1]	$	16,408	15.5%	$	4,244	4.0%	$	5,305	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 first three years of operations which required Tier 1 Capital of $10,213,000 and $8,488,000 at December 31, 2010 and 2009, 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:

	2010		2009	
Beginning balance	$	1,382,276	$	632,857
New loans		325,629		1,307,879
Repayments		(902,623)		(558,460)
Ending balance	$	805,282	$	1,382,276

Deposits and repurchase agreements from related parties held by the Bank at December 31, 2010 and 2009 amounted to $8,431,862 and $10,727,577, 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 $43,722 and $41,044 for the years ended December 31, 2010 and 2009, 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. In 2010, $165,828 was expensed related to Mr. Marshall's SERP. In 2009, a total of $216,644 was expensed related to Mr. Marshall's SERP which represents the cumulative expense from May 2008 to December 2009.

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 $119,242 and $109,314 for the years ended December 31, 2010 and 2009, 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. 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:

	2010
Weighted average fair value of each option 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

Note 15. Employee Benefit Plans, continued

There were 59,810 stock options granted during 2010 and no stock options granted during 2009. There were no options exercised during the years ended December 31, 2010 and 2009. Activity under each Plan during the years ended December 31, 2010 and 2009 is summarized below:

	Incentive Plan		Nonstatutory Plan	
	Available for Grant	Granted	Available for Grant	Granted
Balance December 31, 2008	88,000	102,000	109,810	80,190
Forfeited	-	-	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
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

A summary of option activity under the Plans during the periods ended December 31, 2010 and 2009 is presented below:

	Options Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2008	182,190	$ 11.00	9.73 years	$ -
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding at December 31, 2009	182,190	$ 11.00	8.73 years	$ -
Exercisable at December 31, 2009	36,437	$ 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	$ -

(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, 2010, 2009 and 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

Options vested during 2010 and 2009 totaled 33,342 and 36,437 shares, respectively. Total unrecognized compensation expense related to outstanding non-vested stock options will be recognized over the following periods:

2011	130,203
2012	130,203
2013	130,218
2014	30,177
2015	30,174
Total	$ 450,975

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 no subsequent events have occurred requiring accrual or disclosure in these financial statements in addition to that included herein.

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
Stewart T. Heath	Vice President and Commercial Lender
Danielle H. Johnson	Vice President and Deposit Operations Manager
Chris L. Nichols	Vice President and Commercial Lender
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
Susan C. Cloninger	Universal Associate
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 2011 Annual Meeting of Shareholders of the Bank will be held on May 16, 2011, 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 April 1, 2010, there were approximately 718 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.

TWO GREAT LOCATIONS SERVING THE LAKE NORMAN AREA

Mooresville Branch
Located in Morrison Plantation
106 Corporate Park Drive
Mooresville, NC 28117
(704) 662-7700

Huntersville Branch
Located in Huntersville Square
104 North Statesville Road
Huntersville, NC 28078
(704) 990-7200

Check us out at *www.blueharborbank.com*