

## Message to Shareholders

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Dear Shareholders,

We are pleased to report net income of \$67,955 for the second quarter of this year ended June 30, 2010 in spite of the continued slow economy and financial pressures our clients are feeling. These earnings represent an increase of \$59,952 over the \$8,003 of net income for the first quarter of this year ended March 31, 2010, and an increase of \$518,283 over the net loss of <\$450,328> for three months-ended June 30, 2009.

As of June 30, 2010, blueharbor bank has grown to \$128.4 million in total assets, an increase of \$4.7 million over March 31, 2010, an increase of \$14.1 million over December 31, 2009, and an increase of \$38.7 million over June 30, 2009.

As our balance sheet has grown, our related net interest income has continued to grow. Our net interest income before provision for loan losses was \$1,001,588 for the three months-ended June 30, 2010, an increase of \$74,861 over the \$926,727 for the three months-ended March 31, 2010, and an increase of \$527,536 over the \$474,052 for the three months ended June 30, 2009.

We continue to monitor the credit quality of our loan portfolio and how the slow economy has impacted our loan customers. As issues arise, we have been diligent in recording appropriate loan loss reserves. For the three months-ended June 30, 2010, we recorded \$230,395 in loan loss provision compared to \$194,339 for the three months-ended June 30, 2009. Our allowance for loan losses to gross loans was 1.81% at June 30, 2010, an increase from 1.66% and 1.58% at December 31, 2009, and June 30, 2009, respectively.

We have seen a softening of loan demand in 2010 as solid loan opportunities have decreased compared to the levels we experienced in 2009. As such, our 2010 loan growth continues to lag that of 2009. We will remain patient and not force growth if it appears credit quality would be sacrificed. We have had some success running ads outlining our ability to partner with the Small Business Administration and U.S. Department of Agriculture. The government programs have helped us book some solid loan relationships with the safety of government guarantees for repayment.

Mortgage loan rates continue to be at or near record lows. If you are interested in discussing your mortgage needs, contact Jennifer Dugan at 704-990-7208. She can help you with a wide variety of mortgages, so give Jennifer a call.

Thank you as always for your support for our company and continue to think of ways we can build on our relationship and be a win, win for us all.

As always, let me hear from you and tell a friend about blueharbor bank.

Sincerely,



Joe I. Marshall, Jr.  
President & CEO

**blueharbor bank**  
**PO Box 3546**  
**Mooreville, NC 28117**



*More for your money...More personal service...More local decisions*

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## Financial Report

### June 30, 2010

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Mailing address:

PO Box 3546  
Mooreville, NC 28117

Main office:

106 Corporate Park Drive  
Mooreville, NC  
704-662-7700

Huntersville branch:

104 North Statesville Ave.  
Huntersville, NC  
704-990-7200



<http://www.blueharborbank.com/>

**Condensed Balance Sheet** (unaudited)

	June 30, 2010	December 31, 2009	June 30, 2009
<b>Assets</b>			
Cash and due from banks	\$ 5,578,282	\$ 3,228,974	\$ 6,218,742
Federal funds sold	-	-	5,000,000
Investment securities	17,737,364	12,784,086	11,311,537
Gross loans	98,880,632	94,216,888	65,128,237
Allowance for loan losses	(1,793,156)	(1,561,840)	(1,031,251)
Net loans	97,087,476	92,655,048	64,096,986
Property and equipment	2,378,267	2,474,296	2,635,378
Interest receivable	338,192	337,223	267,227
Other real estate owned	2,756,418	187,352	-
Other assets	2,548,832	2,559,156	109,277
<b>Total Assets</b>	<b>\$ 128,424,831</b>	<b>\$ 114,226,135</b>	<b>\$ 89,639,147</b>
<b>Liabilities</b>			
<b>Deposits</b>			
Noninterest bearing demand	\$ 5,412,678	\$ 4,082,600	\$ 2,954,882
Other interest bearing demand	20,296,207	8,756,807	10,909,342
Money market	37,724,882	39,633,934	33,624,003
Savings	2,155,054	534,820	109,392
Certificates of deposit	41,784,062	40,725,520	23,667,930
<b>Total Deposits</b>	<b>107,372,883</b>	<b>93,733,681</b>	<b>71,265,549</b>
<b>Borrowings</b>			
Repurchase agreements	1,605,031	583,877	1,155,773
Federal funds purchased	-	1,040,000	-
<b>Total Borrowings</b>	<b>1,605,031</b>	<b>1,623,877</b>	<b>1,155,773</b>
Interest payable	140,456	125,772	108,265
Other liabilities	869,210	656,342	208,915
<b>Total Liabilities</b>	<b>\$ 109,987,580</b>	<b>\$ 96,139,672</b>	<b>\$ 72,738,502</b>
Commitments and contingencies	-	-	-
<b>Shareholders' Equity</b>			
Preferred stock	\$ -	\$ -	\$ -
Common stock	9,500,000	9,500,000	9,500,000
Surplus	10,564,159	10,504,521	10,449,864
Retained deficit	(1,855,767)	(1,931,725)	(3,010,245)
Accumulated other comprehensive income	228,859	13,667	(38,974)
<b>Total Shareholders' Equity</b>	<b>\$ 18,437,251</b>	<b>\$ 18,086,463</b>	<b>\$ 16,900,645</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 128,424,831</b>	<b>\$ 114,226,135</b>	<b>\$ 89,639,147</b>

**Condensed Statement of Operations** (unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Interest Income</b>				
Loans and fees on loans	\$ 1,323,753	\$ 764,010	\$ 2,581,937	\$ 1,276,158
Federal funds sold	-	5,180	-	6,751
Investment securities	138,579	59,759	257,550	91,641
Other	14	-	15	-
<b>Total Interest Income</b>	<b>1,462,346</b>	<b>828,949</b>	<b>2,839,502</b>	<b>1,374,550</b>
<b>Interest Expense</b>				
Deposits	457,576	350,276	905,043	576,558
Federal funds purchased	273	-	603	893
Borrowings	2,909	4,621	5,541	9,546
<b>Total Interest Expense</b>	<b>460,758</b>	<b>354,897</b>	<b>911,187</b>	<b>586,997</b>
Net interest income	1,001,588	474,052	1,928,315	787,553
<b>Provision for Loan Losses</b>	<b>230,395</b>	<b>194,339</b>	<b>348,218</b>	<b>459,389</b>
<b>Net interest income after Provision</b>	<b>771,193</b>	<b>279,713</b>	<b>1,580,097</b>	<b>328,164</b>
<b>Noninterest Income</b>				
Service charges on deposit accounts	31,542	16,807	55,891	27,941
NSF fees	4,900	4,025	8,380	7,359
Gain on investment securities	14,345	89	14,345	3,985
Mortgage fees	9,189	-	13,394	-
Other real estate owned	24,008	-	24,008	-
Gain on sale of assets	111,506	-	111,506	-
Other	107	85	530	240
<b>Total Noninterest Income</b>	<b>195,597</b>	<b>21,006</b>	<b>228,054</b>	<b>39,525</b>
<b>Noninterest Expense</b>				
Salaries and Employee Benefits	422,908	373,634	871,546	791,410
Occupancy	76,119	103,902	165,080	207,005
Equipment	42,518	51,779	87,174	99,509
Data processing	88,741	69,282	171,148	122,000
Professional services	39,889	33,279	73,382	74,819
Regulatory fees	56,000	21,472	95,935	60,326
Advertising	23,266	43,433	29,293	62,835
Other real estate owned	56,179	-	95,240	-
Other	50,577	54,266	95,736	97,909
<b>Total Noninterest Expense</b>	<b>856,197</b>	<b>751,047</b>	<b>1,684,534</b>	<b>1,515,813</b>
<b>Net Income (Loss) before Income Taxes</b>	<b>110,593</b>	<b>(450,328)</b>	<b>123,617</b>	<b>(1,148,124)</b>
Income Taxes	42,638	-	47,659	-
<b>Net Income (Loss) before Income Taxes</b>	<b>\$ 67,955</b>	<b>\$ (450,328)</b>	<b>\$ 75,958</b>	<b>\$ (1,148,124)</b>
<b>Basic Income (Loss) per Share</b>	<b>\$ 0.04</b>	<b>\$ (0.24)</b>	<b>\$ 0.04</b>	<b>\$ (0.60)</b>
<b>Diluted Income (Loss) per Share</b>	<b>\$ 0.04</b>	<b>\$ (0.24)</b>	<b>\$ 0.04</b>	<b>\$ (0.60)</b>
<b>Weighted Average Shares Outstanding:</b>				
Basic	1,900,000	1,900,000	1,900,000	1,900,000
Diluted	1,900,000	1,900,000	1,900,000	1,900,000

We use local money to build local houses,  
grow local businesses and do local good.  
See a pattern here?

