

October 31, 2008

Dear Shareholder,

The Bank finished the third quarter of 2008 with total assets of \$241 million, with shrinkage in footings of \$400,000 for the quarter. Total deposits at quarter end were \$198.5 million, down \$5.1 million from last quarter. Shrinkage again this quarter was in maturing high cost time deposits. Net loans decreased by \$3.8 million for the quarter under flat demand. Balance sheet growth measured from the end of the third quarter of the last year was 14% while deposits increased 10% and loans were up 14%. Stockholder equity remains strong at the end of the period at \$20.6 million. Your Bank is well capitalized.

The Bank recorded a net loss for the quarter of \$2 million which reflected write-downs in our largest non-performing loan as well as realization of smaller impairment on other non-performing loans within the portfolio. Losses for the year to date are \$2,916,000. Throughout this year, the Bank has addressed expenses associated with the opening of two offices, declining interest margins from pronounced decreases in the Prime lending interest rate and workout activities on non-performing assets. These conditions have hidden from view the fact that our underlying banking operations are profitable. We have countered adversity by aggressively addressing our interest margin, reducing operating expenses, and resolving non-performing assets on an ongoing basis.

Management has made strides in reducing non-performing assets. Non-performing assets were \$10.7 million at the end of the quarter, representing a \$2.5 million decrease from the prior quarter. This is continued improvement from the 1st quarter level which was \$14.7 million. During the quarter, the Bank obtained title to two properties. One was collateral for the Bank's largest non-performing loan and the other was collateral for a non-performing loan participation. Both properties are being actively marketed for sale. Realism forces us to recognize that there may be more setbacks to our progress in the months and quarters to come and that conditions in the market remain dynamic - we are not out of the woods yet.

Your board of directors and management team remind you again that prevailing economic conditions, public perception of the financial sector, and the price at which our investors buy and sell our stock are all factors that are out of our control. But we ask you to understand that we are deeply committed to working through this difficult cycle. To prove this commitment, we are in the process of raising an additional \$1.2 million in capital from our board and insiders to bolster our loan loss reserve and improve our overall capital position as we posture the Bank for 2009. We ask for patience and fortitude from you as we continue to work through these unprecedented times.



Gregory A. Mohr
Chairman



William W. Short
President
Chief Executive Officer

OLD HARBOR BANK
Clearwater, Florida

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share figures)

	At	
	September 30, 2008	September 30, 2007
Total assets	\$ 241,153	211,386
Loans, net	\$ 188,814	165,803
Deposits	\$ 198,526	180,875
Stockholders' equity	\$ 20,587	23,365
Book value per share	\$ 10.35	11.75
Number of common shares outstanding	1,989,224	1,989,224
	Three Months Ended 9/30/2008	Three Months Ended 9/30/2007
Interest income	\$ 3,468	3,700
Interest expense	<u>1,802</u>	<u>2,121</u>
Net interest income	1,666	1,579
Provision for loan losses	<u>3,134</u>	<u>144</u>
Net interest income after provision	(1,468)	1,435
Noninterest income	69	72
Noninterest expense	<u>1,809</u>	<u>1,292</u>
(Loss) earnings before income taxes	(3,208)	215
Income tax (benefit) expense	<u>(1,204)</u>	<u>85</u>
Net (loss) earnings	\$ <u>(2,004)</u>	<u>130</u>
Per Share	\$ <u>(1.01)</u>	<u>.07</u>
	Nine Months Ended 9/30/2008	Nine Months Ended 9/30/2007
Interest income	\$ 10,186	10,497
Interest expense	<u>5,875</u>	<u>5,975</u>
Net interest income	4,311	4,522
Provision for loan losses	<u>4,102</u>	<u>435</u>
Net interest income after provision	209	4,087
Noninterest income	239	192
Noninterest expense	<u>5,101</u>	<u>3,749</u>
(Loss) earnings before income taxes	(4,653)	530
Income tax (benefit) expense	<u>(1,737)</u>	<u>214</u>
Net (loss) earnings	\$ <u>(2,916)</u>	<u>316</u>
Per Share	\$ <u>(1.47)</u>	<u>.16</u>