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blueharbor bank (BLHK - OB)

5003 Falls of Neuse Road

Raleigh
North Carolina
27609

919-876-8868 ph

www.equityresearch.com

John A. (Buddy) Howard, CFA
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Price:	\$8.00	EPS *	2015A:	\$ 0.33	Price/ EPS	2015A:	24.2 x
52 Wk. Range:	\$7.50 - \$8.85	(FY: DEC)	2016A:	\$ 0.41		2016A:	19.5 x
Div/Div Yld:	\$0.00 / 0.0%		2017E:	\$ 0.50		2017E:	16.0 x
Shrs/Mkt Cap:	2.7 mm / \$21.7 mm	Book Value: **		\$ 8.85	Price/Book Value:		0.90 x

Background

With \$179.0 million in assets, blueharbor bank (the Bank uses lower case letters in all of its branding) is a community bank headquartered in Mooresville, North Carolina. The Bank currently operates three branch locations in Mooresville, Huntersville and Statesville, which are located in Iredell and Mecklenburg Counties. The Bank offers personal checking, savings, money market accounts, CDs, IRAs, Health Savings Accounts, and personal loans, including HELOCs. Business services offered include checking, savings and business loans, and remote deposit capture. The Bank also provides wealth management, investments, estate planning and family office services through blueharbor wealth advisors (www.blueharborwealthadvisors.com), which has offices in Charlotte, NC, Mooresville, NC and Naples, FL. One unique aspect of the Bank is that its offices are located in and around the affluent Lake Norman area of North Carolina, which has excellent demographics. blueharbor bank's shares are traded on the OTC Bulletin Board under the symbol "BLHK." With this report, we initiate coverage of blueharbor bank.

First Quarter Earnings Increased 27%

blueharbor bank reported strong results in the first quarter of 2017. The Bank continues to be one of the most efficiently operated banks in North Carolina, and as it has grown revenues, this cost containment discipline has fueled an above-average rate of bottom line expansion. The Bank is also doing an excellent job maintaining its balance sheet growth (loan growth in particular), with both loan and overall balance sheet growth in the double-digits over the past year. Finally, asset quality remains good, and the outlook for asset quality in the future is bolstered by relatively low short-term delinquency rates.

In terms of specific results, net income for the first quarter of 2017 was \$354,000, or \$0.12 per diluted share, which was up 27% from \$279,000, or \$0.09 per diluted share, in the year-ago quarter. Earnings benefitted from strength in several areas. Net interest income increased 12% to \$1,520,000 in 2017's first quarter from \$1,354,000 in the year-ago quarter, mainly due to a robust increase (+21%) in average earning assets. The net interest margin was 3.70% in the first quarter of 2017, versus 3.81% in the first quarter of 2016. Noninterest income was also strong, increasing 9% to \$139,000 in 2017's first quarter from \$127,000 in the year-ago quarter, with none of the increase due to nonrecurring security gains or losses. Expense containment was also quite impressive. Total noninterest expense was essentially flat at \$1,067,000 in the first quarter of 2017, versus \$1,056,000 in the first quarter of 2016. Profitability ratios reflected the impressive earnings growth, with annualized return on average assets increasing to 0.81% for the first quarter of 2017 from 0.71% in the year-ago quarter, and annualized return on average equity increasing to 6.00% from 4.92% over the same respective periods. We would also note that the earnings improvement was achieved despite a provision for loan losses of \$53,000 in 2017's first quarter, whereas there was no provision in the year-ago quarter. Pretax income before the provision was \$591,000 in 2017's first quarter, up 39% from \$425,000 in the year-ago quarter.

ASSETS: \$179.0 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

1ST QUARTER HIGHLIGHTS:

EPS: \$0.12 vs. \$0.09

**AVERAGE EARNING ASSET
GROWTH OF 21% MORE THAN
OFFSET THE CONTRACTION IN
MARGINS**

**NET INTEREST INCOME WAS
UP 12%**

**NONINTEREST INCOME
INCREASED 9%**

**NONINTEREST EXPENSE
REMAINED RELATIVELY FLAT
COMPARED TO THE YEAR-AGO
QUARTER**

BALANCE SHEET GROWTH FROM 3/31/16 TO 3/31/17:

ASSETS: 12%
NET LOANS: 20%
DEPOSITS: 11%

EQUITY/ASSETS: 13.4%

DEMOGRAPHICS ARE QUITE STRONG FOR BLUEHARBOR BANK'S MARKETS

BLUEHARBOR BANK HAS A SUPERIOR PERFORMANCE COMPARED TO ITS PEER BANKS

THE STOCK TRADES AT A DISCOUNT TO THE GROUP, BOTH ON THE BASIS OF EARNINGS AND BOOK VALUE

GIVEN ITS PERFORMANCE AND THE ATTRACTIVENESS OF ITS MARKETS, WE BELIEVE THE SHARES HAVE BETTER THAN AVERAGE LONG-TERM POTENTIAL FOR APPRECIATION

NPAS/ASSETS: 0.78%

RESERVES/LOANS HFI: 1.04%

THERE WERE NOMINAL LOANS THAT WERE 30-TO-89 DAYS PAST DUE

EPS:
2015A: \$0.33
2016A: \$0.41
2017E: \$0.50

Balance Sheet Growth Has Benefited From Favorable Demographics

As was stated previously, blueharbor bank's balance sheet has had excellent growth over the past year, especially in terms of loans, which increased 20% from March 31, 2016 to March 31, 2017. Growth was also commendable over this period in total assets, which increased 12%, and deposits, which were up 11%. The Bank has a solid capital position to maintain this growth. Shareholders' equity was \$24.1 million, or 13.4% of total assets, at March 31, 2017, up from \$22.9 million, or 14.3%, at the year-ago date. While a large part of the Bank's success growing the balance sheet is due to strong relationships, excellent customer service and competitive products, it is also due to favorable demographics. All three of the Bank's branches are located in the Lake Norman region, with its close proximity to Charlotte and impressive average income and population growth (we will discuss the favorable demographics in more detail in one of our upcoming reports). The area is also known for having excellent schools and health care, a favorable small business environment and a cost of living that is below the national average.

Peer Group Comparison

As can be seen from the table below, blueharbor bank has had a better performance than the typical North Carolina bank in its size category. Its annualized return on average assets was nearly twice the median for its peer group, and its annualized return on average equity was higher as well. (One thing that makes the ROAE all the more impressive is the Bank's high capital ratios, as its tangible equity-to-assets ratio was 13.4%, versus 8.0% for its peers.) Moreover, as the Bank leverages its capital through ongoing earning assets growth, we expect ROAE to increase as well. Much of the Bank's superior performance, in terms of profitability ratios, comes from its efficiency. Its efficiency ratio was the second best out of 13 peer companies, and its assets-per-employee ratio was by far the highest, indicating that the Bank uses its investment in people quite effectively. Finally, the Bank has similar asset quality to its peer group. Despite the superior performance, blueharbor bank trades at a discount to the median multiples, both on the basis of book value and trailing 12-month earnings. For this reason, we believe blueharbor bank shares appear attractive from a long-term appreciation standpoint.

PEER GROUP COMPARISON: BLHK VS. NC PUBLIC BANKS FROM \$100 MM TO \$1.0 BB IN ASSETS							
	Core ROAA MRQ	Core ROAE MRQ	Efficiency Ratio	Assets Per Employee (\$)	NPAs/ Assets	Price/ LTM EPS	Price/Tang. Book Value
BLHK	0.81%	6.00%	64.1%	7.2 mm	0.78%	18.2x	0.92x
Peer Median	0.42%	5.33%	82.6%	4.7 mm	0.76%	19.4x	1.18x

Asset Quality Is Commendable

As was stated above, blueharbor bank's asset quality remains good, with nonperforming asset ratios that are fairly comparable to the majority of comparably sized North Carolina banks. Nonperforming assets (including nonaccruing loans and OREO) were \$1.4 million, or 0.78% of assets, at March 31, 2017, versus \$1.2 million, or 0.70% of assets, at December 31, 2016 and \$1.2 million, or 0.77% of assets, at March 31, 2016. Roughly \$775,000 of the current NPAs (over half the total) is in one OREO that is on the books well below appraised value. The Bank also had very few short-term delinquencies, with only \$26,000 in the 30-to-89 day past due category. The allowance for loan losses totaled \$1.6 million, or 1.04% of loans, at March 31, 2017, as compared to \$1.5 million, or 1.16% of loans, at the year-ago date.

Projections

Based on the recent results, we are projecting 2017 earnings at \$1.5 million, or \$0.50 per diluted share. We will publish our 2018 earnings estimate later this year. These projections may vary considerably based on economic and other conditions.

ADDITIONAL INFORMATION UPON REQUEST

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