

AVAILABLE ON THE WEB AT [WWW.EQUITYRESEARCH.COM](http://www.equityresearch.com)

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
October 24, 2017

Price:	\$10.50	EPS	2016A:	\$ 0.41	Price/ EPS	2016A:	25.6 x
52 Wk. Range:	\$7.50 - \$10.95	(FY: DEC)	2017E:	\$ 0.57		2017E:	18.4 x
Div/Div Yld:	\$0.00 / 0.0%		2018E:	\$ 0.70		2018E:	15.0 x
Shrs/Mkt Cap:	2.7 mm / \$29 mm	Book Value:		\$ 9.23	Price/Book Value:		1.14 x

Background

With \$198 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 four 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 complete treasury management services including 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."

Third Quarter Results Were Better Than Expected

Third quarter results were a good deal better than expected for blueharbor bank. Thanks to a combination of higher net interest income, growth in noninterest income and lower expenses, earnings nearly doubled from the year-ago quarter. Balance sheet growth was also strong, with loans, assets and deposits generally increasing in the 17% to 21% range from the year-ago level. Moreover, a new location in downtown Mooresville (opened on October 23rd) under the direction of longtime Mooresville banker Gerald Huffman should help to sustain that momentum. Asset quality held up well, and the stock price, in part reflecting these positive developments, continued to advance. Specifically, the shares are up 28% from our most recent report dated August 9, 2017 and 31% from our original report dated July 6, 2017. Selected performance metrics are summarized in the table to the left. We were particularly impressed with the progress in all of the key profitability and asset quality metrics.

Performance Ratios at a Glance (%)		
	Q3 16	Q3 17
ROAA	0.68	1.06
ROAE	4.77	8.34
Efficiency Ratio	72.7	56.4
NPAs/Assets	0.73	0.60
Equity/Assets	13.9	12.7

Net income for the third quarter of 2017 was \$524,000, or \$0.17 per diluted share, up 86% from \$281,000, or \$0.09 per diluted share, in the year-ago quarter. We had projected earnings of \$403,000, or \$0.13 per diluted share. Nearly every major component of income improved relative to the year-ago figures. Net interest income increased 22% to \$1,770,000 in 2017's third quarter from \$1,457,000 in the year-ago quarter. Margins were essentially unchanged, so all of the increase was due to the strength in average earning assets. Noninterest income also increased (up 18%), which was all the more impressive given that mortgage-related income declined. The most notable strength was in wealth management fees, which nearly doubled to \$53,000 in 2017's third quarter from \$30,000 in the year-ago quarter. (Wealth management in the most recent quarter accounted for more than a third of total noninterest income.) As we have stated in previous reports, blueharbor bank has achieved a high

ASSETS: \$198 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

3RD QUARTER HIGHLIGHTS:

**BLUEHARBOR BANK
REPORTED ANOTHER
EXCELLENT QUARTER**

EPS: \$0.17 vs. \$0.09

**NEARLY EVERY AREA
COMPONENT OF INCOME
IMPROVED**

**NET INTEREST INCOME WAS
UP 22%, WHILE NONINTEREST
INCOME GREW 18%**

**WEALTH MANAGEMENT
INCOME WAS ESPECIALLY
STRONG, NEARLY DOUBLING
FROM THE YEAR-AGO
QUARTER**

COST CONTAINMENT WAS EXCELLENT, AS NONINTEREST EXPENSE DECLINED 6%

level of diversity within its noninterest income. Finally, blueharbor bank continues to operate at a highly efficient level, especially given its size. Noninterest expense actually decreased 6% to \$1,082,000 in the third quarter of 2017, versus \$1,150,000 in the year-ago quarter, with the majority of expense categories declining from the year-ago level. We would also note that the increase in earnings was achieved despite an increase in the provision for loan losses to \$41,000 in the third quarter of 2017 (all of the provision increase was due to loan growth as opposed to a slippage in asset quality), versus none in the year-ago quarter.

Nine Months Results Were Likewise Impressive

Net income for the first nine months of 2017 was \$1,302,000, or \$0.43 per diluted share, compared to \$844,000, or \$0.28 per diluted share, in the year-ago period. Net interest income grew 18%, noninterest income was up 25% and noninterest expense declined slightly. As was the case with the quarterly results, the strong earnings performance was achieved despite a higher provision for loan losses (again, all of the provision increase was due to loan growth as opposed to a slippage in asset quality). Specifically, the provision for loan losses was \$193,000 in the first nine months of 2017, up from \$17,000 in the year-ago period.

Balance Sheet Growth Was Excellent; Deposit Share Has Continued to Strengthen

As can be seen from the table below, blueharbor bank continues to reflect consistent growth in each of its key balance sheet areas. From September 30, 2016 to September 30, 2017, assets and deposits grew

Balance Sheet (\$MMs)	2016	2016	2017	2017	2017
	Q3	Q4	Q1	Q2	Q3
Assets	169	174	179	192	198
Gross Loans	141	147	155	166	170
Deposits	141	143	149	159	166
Stockholders' Equity	23.5	23.7	24.1	24.6	25.1
Equity/Assets (%)	13.9	13.6	13.4	12.8	12.7

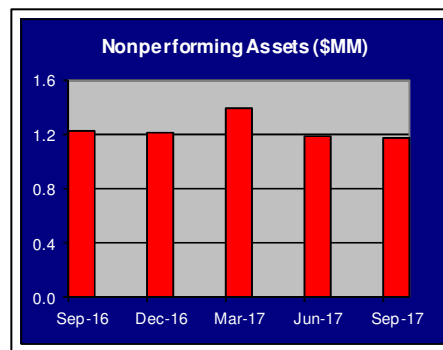
17%, while loans increased 21%. And despite the rapid balance sheet growth, blueharbor bank's high ROAE has allowed capital to expand quickly as well, which has helped to sustain capital ratios. Stockholders' equity was \$25.1 million, or 12.7% of assets, at

September 30, 2017, and all of the Bank's regulatory ratios exceeded those necessary to be considered "well capitalized." One other point we would make regarding the Bank's deposits is that it has been successfully growing its market share. In Iredell County, where the majority of its deposits are located, it controlled 4.70% of the bank deposit market at June 30, 2017, up from 3.96% at June 30, 2016 and 3.49% at June 30, 2015.

DEPOSIT MARKET SHARE			
Iredell County	6/30/15	6/30/16	6/30/17
blueharbor Deposits	89 MM	110 MM	134 MM
Market Share	3.49%	3.96%	4.70%

Asset Quality Remains Good and Improved

Nonperforming assets (including nonaccruing loans and OREO) were \$1,179,000, or 0.60% of assets, at September 30, 2017, versus \$1,192,000, or 0.62% of assets, at June 30, 2017 and \$1,232,000, or 0.73% of assets, at September 30, 2016. A significant portion of the current NPAs (over half of the total) is in one OREO that is on the books well below appraised value. The allowance for loan losses totaled \$1,575,000, or 1.03% of loans, at September 30, 2017, versus \$1,554,000, or 1.11% of loans, at the year-ago date.



Projections Increased

Based on the recent results, we are boosting our 2017 earnings projection to \$1.7 million, or \$0.57 per diluted share, up from \$1.6 million, or \$0.50 per share, projected earlier. For 2018, we are projecting earnings of \$2.1 million, or \$0.70 per diluted share. These projections may vary considerably based on economic conditions.

EPS:
2016A: \$0.41
2017E: \$0.57
2018E: \$0.70

ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2017 Equity Research Services, Inc. All rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned. Equity Research Services, Inc. ("ERS") is a firm involved in financial advisory, equity research, valuation and investor relations services. All reports generated by ERS for the purpose of investor relations are designated "Investor Relations Report," and ERS receives a fee (from the company whose securities are described) for producing such reports. ERS may also act in a financial advisory role to the company. The information contained herein has been obtained from sources we believe reliable but in no way is guaranteed by us. Furthermore, this report contains forward-looking statements and projections that are based on certain assumptions and expectations. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's SEC filings. Any non-factual information in the report is our opinion and is subject to change without notice.

LOANS INCREASED 21% IN THE PAST YEAR, WHILE ASSETS AND DEPOSITS EACH GREW 17%

BLUEHARBOR BANK'S HIGH ROAE HAS SUSTAINED ITS CAPITAL RATIOS

ITS DEPOSIT SHARE HAS CONTINUED TO INCREASE AS WELL

ASSET QUALITY HAS BEEN HOLDING FAIRLY STEADY

NPAs/ASSETS: 0.60%

RESERVES/LOANS HFI: 1.03%