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blueharbor bank (BLHK - OB)

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March 8, 2018

Price:	\$12.00	EPS *	2016A:	\$ 0.41	Price/ EPS	2016A:	29.3 x
52 Wk. Range:	\$7.83 - \$12.15	(FY: DEC)	2017A:	\$ 0.44		2017A:	27.3 x
Div/Div Yld:	\$0.00 / 0.0%		2018E:	\$ 0.71		2018E:	16.9 x
Shrs/Mkt Cap:	2.7 mm / \$33 mm	Book Value:		\$ 9.21	Price/Book Value:		1.30 x

* 2017 EPS includes \$0.14 per share in a nonrecurring deferred tax asset charge.

Background

With \$204 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."

Fourth Quarter Operating Results Were Excellent; 2018 EPS Projections Increased

blueharbor bank reported solid operating results in the fourth quarter and year-ended December 31, 2017. Although reported earnings for the fourth quarter were lower than the year-ago level (they were higher for the full year), that shortfall was solely attributable to a nonrecurring charge associated with the recently enacted Tax Cuts and Jobs Act of 2017. This noncash charge of \$435,000 lowered both the quarterly and annual earnings in 2017 and resulted from a revaluation of the Company's deferred tax assets (essentially adjusting for the timing differences between income taxes for tax versus financial statement purposes). Bottom line, though, the new tax legislation is a clear positive for blueharbor, as it reduces the corporate income rate from 35% to 21%. While some banks that have low effective tax rates (due to investments in municipal bonds, among other things) will not see much immediate benefit from the new legislation, blueharbor should derive significant benefits since it has had a fairly high effective tax rate. (In the first nine months of 2017, blueharbor's effective tax rate was 34% and it was 37% in 2016). The point is that this drop in tax rates should boost the Company's earnings, which is part of the basis for us increasing our earnings projections for 2018.

Reported net income for the fourth quarter of 2017 (after the nonrecurring tax charge) was \$26,000, or \$0.01 per diluted share, versus \$384,000, or \$0.13 per diluted share, in the year-ago quarter. Earnings excluding the deferred tax asset charge were \$462,000, or \$0.15 per diluted share, which was about 10% better than we had modeled. Net interest income increased 19% to \$1,774,000 in 2017's fourth quarter from \$1,494,000 in the year-ago quarter. Margins were fairly stable, so the majority of this improvement came from higher average earning assets. Noninterest income dropped about 6%, mainly due to a slight moderation in fees for several business lines, such as mortgage banking and wealth management. Expenses were a little higher than expected, although that was mainly due to a \$100,000 write down on the book value of the one piece of other real estate owned. Excluding this write-down, noninterest expenses were up 15%, which given the new branch opening in downtown Mooresville this

ASSETS: \$204 MM

HQ: MOORESVILLE, NC

CONTACT:
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PRESIDENT & CEO

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4TH QUARTER HIGHLIGHTS:

FOURTH QUARTER EARNINGS WERE AFFECTED BY A DEFERRED TAX ASSET CHARGE

REPORTED EPS: \$0.01 vs. \$0.13

EXCLUDING THE CHARGE, THE FOURTH QUARTER EPS WOULD HAVE BEEN \$0.15

NET INTEREST INCOME WAS UP 19%, MAINLY BENEFITTING FROM HIGHER AVERAGE EARNING ASSETS

NONINTEREST INCOME DECLINED 6%, WHILE NONINTEREST EXPENSE EXCLUDING OREO LOSSES WAS UP 15%

THE STOCK PRICE HAS BEEN PERFORMING QUITE WELL ALSO, AND IS UP 47% OVER THE PAST YEAR

past October and the Company's strong balance sheet growth, was fairly reasonable. Finally, we would note that there was a credit for loan losses of \$41,000 in 2017's fourth quarter, versus no provision in the year-ago quarter. Based on the strength of the results, the stock price (currently at an all-time high) has continued to perform quite well, and is up 47% over the past year, versus 18% for the KBW Nasdaq Bank Index.

Full Year Operating Results Were Also Strong

Net income for the full year was likewise affected by the tax adjustment. While reported earnings for 2017 were \$1,328,000, or \$0.44 per diluted share, compared to \$1,228,000, or \$0.41 per diluted share, in 2016, earnings in 2017 excluding the tax adjustment were \$1,763,000, or \$0.58 per diluted share. Net interest income was up 18%, noninterest income was up 15% and noninterest expense grew 6%. The provision for loan losses was \$152,000 in 2017, versus \$17,000 in 2016. As can be seen in the adjacent table, most of the key performance ratios improved in 2017 relative to 2016. In particular, we would note blueharbor's impressive efficiency ratio of 61.3%. For the typical NC bank, that ratio is 71.3% (a lower ratio is better.)

	2016	2017
ROAA *	0.75	0.92
ROAE *	5.28	7.21
Efficiency Ratio	68.4	61.3
NPAs/Assets	0.70	0.52
Equity/Assets	13.6	12.3

* Excludes deferred tax charge in 2017.

FULL YEAR HIGHLIGHTS:

EPS: \$0.44 vs. \$0.41

EXCLUDING THE DEFERRED TAX ASSET CHARGE, EPS IN 2017 WOULD HAVE BEEN \$0.58

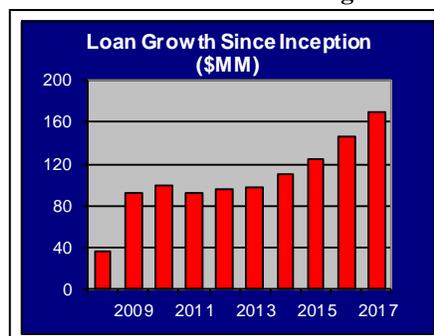
BLUEHARBOR CONTINUES TO ACHIEVE IMPRESSIVE PERFORMANCE METRICS, PARTICULARLY ITS EFFICIENCY RATIO

BALANCE SHEET GROWTH HAS REMAINED STRONG, BOTH IN THE SHORT TERM AND LONGER TERM

LOANS AND ASSETS INCREASED 17% IN THE PAST YEAR, WHILE DEPOSITS GREW 22%

BLUEHARBOR'S STRONG CAPITAL POSITION PUTS IT IN A GOOD POSITION TO BUILD SHAREHOLDER VALUE

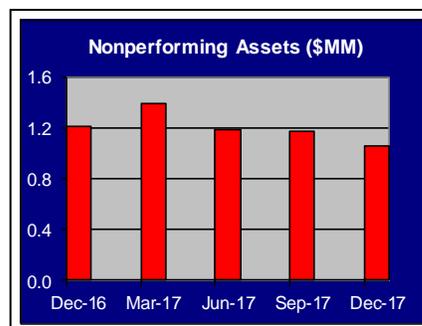
Loan Growth Remains Strong and Began Accelerating Several Years Ago



As can be seen from the chart below, blueharbor bank has been growing its loan portfolio consistently since 2012, when the industry was still coming out of the Great Recession. That strength has continued throughout 2017. From December 31, 2016 to December 31, 2017, assets and gross loans grew 17%, while deposits increased 22%. blueharbor remains very well capitalized as well, which positions it well to sustain this growth. As of December 31, 2017, stockholders' equity was \$25.0 million, or 12.3% of assets.

Asset Quality Continues to Improve

Asset quality remains good. Nonperforming assets (including nonaccruing loans and OREO) were \$1,066,000, or 0.52% of assets, at December 31, 2017, versus \$1,179,000, or 0.60% of assets, at September 30, 2017 and \$1,217,000, or 0.70% of assets, at December 31, 2016. A significant portion of the current NPAs is in one OREO that is on the books well below appraised value. The allowance for loan losses totaled \$1,717,000, or 1.00% of loans, at December 31, 2017, versus \$1,555,000, or 1.06% of loans, at the year-ago date.



Projections Increased

Based on the recent results and lower tax rate, we are boosting our 2018 earnings projection to \$2.2 million, or \$0.71 per diluted share, up from \$2.1 million, or \$0.70 per share, projected earlier. These projections may vary considerably based on economic conditions.

REPORTED EPS:

2016A: \$0.41

2017A: \$0.44 *

2018E: \$0.71

*2017 EPS INCLUDES \$0.14 PER SHARE IN A DEFERRED TAX ASSET CHARGE

ADDITIONAL INFORMATION UPON REQUEST

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