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blueharbor bank (BLHK - OB)

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Price:	\$12.20	EPS *	2016A:	\$ 0.41	Price/ EPS	2016A:	29.8 x
52 Wk. Range:	\$7.90 - \$14.50	(FY: DEC)	2017A:	\$ 0.44		2017A:	27.7 x
Div/Div Yld:	\$0.00 / 0.0%		2018E:	\$ 0.71		2018E:	17.2 x
Shrs/Mkt Cap:	2.7 mm / \$33 mm	Book Value:		\$ 9.34	Price/Book Value:		1.31 x

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

Background

With \$206 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."

First Quarter Earnings Reached an All Time High; Profitability Metrics Continue to Improve

blueharbor bank reported another strong quarter in the three months ended March 31, 2018. Earnings were up sharply, and while some of that was due to a drop in the effective tax rate (from the recently enacted Tax Cuts and Jobs Act of 2017), it was also the result of good cost containment, combined with a strong surge in revenues. Balance sheet growth was also commendable, with notable increases relative to the year-ago levels in most key areas. Finally, asset quality was excellent, with the overall level of nonperforming assets dropping relative to the year-ago level and the sequentially linked quarter.

In terms of specifics, net income for the first quarter of 2018 was \$578,000, or \$0.19 per diluted share, versus \$354,000, or \$0.12 per diluted share, in the year-ago quarter. We had been expecting the Company would report \$0.18 per share, so the results were a penny per share better than anticipated. Net interest income increased 17% to \$1,778,000 in 2018's first quarter from \$1,520,000 in the year-ago quarter. The strength in net interest income was due to both margin improvement (3.79% in 2018's first quarter, versus 3.70% in the year-ago quarter) and an expansion in average earning assets (up 14%). Noninterest income was quite strong as well, and increased 20% in the quarter, while noninterest expense was up 12%, partly due to expansion activities (such as the branch opening in downtown Mooresville in October 2017). Thanks in part to the ongoing progress in asset quality, the provision for loan losses declined to \$9,000 in 2018's first quarter, versus \$53,000 in the year-ago quarter. Performance metrics also continued to improve. As can be seen in the adjacent table, ROAE increased to 9.27%, while the ROAA grew to

First Quarter Ratios at a Glance
(%)

	<u>2017</u>	<u>2018</u>
ROAA	0.81	1.15
ROAE	6.00	9.27
Efficiency Ratio	64.3	61.6
NPAs/Assets	0.78	0.51
Equity/Assets	13.4	12.3

ASSETS: \$206 MM

HQ: MOORESVILLE, NC

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1ST QUARTER HIGHLIGHTS:

FIRST QUARTER EARNINGS WERE UP SHARPLY AND WERE A PENNY BETTER THAN EXPECTED

EPS: \$0.19 vs. \$0.12

NET INTEREST INCOME WAS UP 17% WITH BOTH MARGINS IMPROVING AND AVERAGE EARNING ASSETS GROWING

NONINTEREST INCOME WAS STRONG AS WELL

KEY PROFITABILITY METRICS WERE ALSO IMPRESSIVE

1.15%, both of which are excellent for a bank blueharbor's size and age. The efficiency ratio was especially impressive at 61.6%. Out of 23 North Carolina banks with assets under \$5 billion, only two had efficiency ratios that were better.

Balance Sheet Growth Has Been Holding Up Well; Capital Position Remains Quite Strong

Balance sheet growth moderated in the most recent three months but remained excellent. From March 31, 2017 to March 31, 2018, assets grew 15%, while gross loans increased 12% and deposits were up 20%. We expect this solid growth to continue as the downtown Mooresville location continues to build traction. From a capital standpoint, the Company is in great shape to maintain this growth, as it is well capitalized. As of March 31, 2018, stockholders' equity was \$25.4 million, or 12.3% of assets. All of the Bank's regulatory capital ratios comfortably exceed the minimums to be considered "well capitalized."

ALTHOUGH THE BALANCE SHEET GROWTH MODERATED IN THE LAST THREE MONTHS, GROWTH OVER YEAR-AGO FIGURES HAS BEEN IN THE MID TO UPPER TEENS

Improvement in ROAA Has Come From a Lower Tax Rate But Also Stronger Core Operations

As was stated above, over the past year, blueharbor bank's ROAA has improved to 1.15% in 2018's first quarter from 0.81% in the year-ago quarter. On initial consideration, it might be tempting to conclude that that the majority of that increase in ROAA came from a drop in the Company's tax rate. (Thanks to the passage late last year of the Tax Cuts and Jobs Act of 2017, the Company's effective tax rate declined to 22% in 2018's first quarter from 34% in the year-ago quarter). However, if we divide each of the

BLUEHARBOR HAS SIGNIFICANTLY IMPROVED ITS ROAA AND ROAE

% of Avg Assets	Breakdown of Changes in Core ROAA (Annualized %s)					Q1 17-Q1 18
	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Improvement
Net Interest Income	3.49%	3.52%	3.57%	3.51%	3.54%	0.05%
Provision	0.12%	0.21%	0.08%	-0.08%	0.02%	0.10%
Core Nonint. Income	0.32%	0.37%	0.30%	0.31%	0.33%	0.01%
Core Nonint. Expense	2.45%	2.31%	2.19%	2.50%	2.38%	0.07%
Core Pretax Income	1.24%	1.37%	1.60%	1.40%	1.47%	0.23%

WHILE IT IS TRUE THAT PART OF BLUEHARBOR'S IMPROVING ROAA HAS COME FROM A LOWER TAX RATE, IT IS ALSO DUE TO CORE OPERATING IMPROVEMENTS IN NET INTEREST INCOME, NONINTEREST INCOME, THE PROVISION AND NONINTEREST EXPENSES

income statement categories by average assets, we can see (from the following table) the sources of improvement in the *pretax* return on average assets. Moreover, the sources of that improvement were varied, as net interest income increased as a percentage of average assets, as did noninterest income (slightly), while the provision and noninterest expense both declined. We are particularly impressed by the drop in noninterest expense as a percentage of average assets, as this discipline in containing costs is not subject to competitive pressures as the margin (and therefore net interest income) can sometimes be.

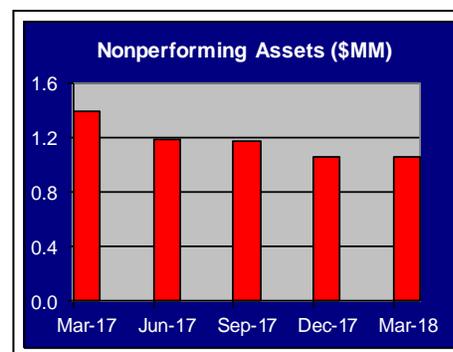
Asset Quality Continues to Improve

Asset quality remains good. Nonperforming assets (including nonaccruing loans and OREO) were \$1,053,000, or 0.51% of assets, at March 31, 2018, versus \$1,066,000, or 0.52% of assets, at year-end 2017 and \$1,395,000, or 0.78% of assets, at March 31, 2017. 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 \$1,729,000, or 1.00% of loans, at March 31, 2018, versus \$1,608,000, or 1.04% of loans, at the year-ago date.

ASSET QUALITY REMAINS EXCELLENT

NPAs/ASSETS: 0.51%

RESERVES/LOANS HFI: 1.00%



Projections Maintained

Based on the recent results, we are retaining our 2018 earnings projection at \$2.2 million, or \$0.71 per diluted share. We believe these projections could be slightly conservative. However, it should be noted that 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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