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blueharbor bank (BLHK - OB)

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Price:	\$12.40	EPS *	2016A:	\$ 0.41	Price/ EPS	2016A:	30.2 x
52 Wk. Range:	\$8.15 - \$14.50	(FY: DEC)	2017A:	\$ 0.44		2017A:	28.2 x
Div/Div Yld:	\$0.00 / 0.0%		2018E:	\$ 0.75		2018E:	16.5 x
Shrs/Mkt Cap:	2.8 mm / \$34 mm	Book Value:		\$ 9.55	Price/Book Value:		1.30 x

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

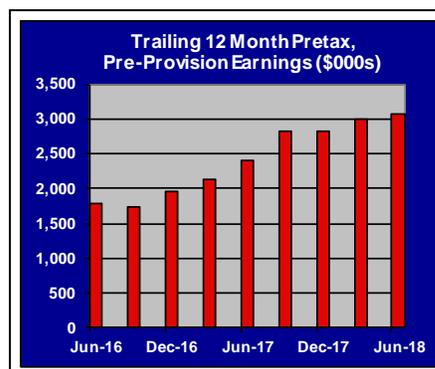
Background

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."

Second Quarter Earnings Were Well Above Projections; EPS Increased 57%

The second quarter of 2018 was another excellent quarter for blueharbor bank. Earnings continued their expansion, increasing 53% (57% on an EPS basis) from the year-ago quarter, as well as growing relative to the linked first quarter of 2018. Balance sheet growth was also positive, though at a slightly reduced rate in terms of loans. Finally, asset quality was exceptional, with the quarterly level of nonperforming assets lower than at any point since the fourth quarter of 2009. The Company's stock price has continued to advance, with the returns of BLHK shares far exceeding those of broader stock market indices, as is discussed in more detail on the next page.

Net income for the second quarter of 2018 was \$648,000, or \$0.22 per diluted share, versus \$424,000, or \$0.14 per diluted share, in the year-ago quarter. We had been expecting the Company would report earnings of \$0.16 per share, so the results were well above expectations, partly due to a lower than anticipated provision for loan losses but also due to better than expected expense containment. One thing that differentiates blueharbor bank from many other community banks is the extent of its efficiency. The Company's efficiency ratio of 58.9% in the most recent quarter (versus about 66% for most NC publicly traded banks) provides clear evidence of its success in this area. The ongoing progress in efficiency is one factor that accounts for the longer term earnings uptrend at the Company, as can be seen from the trend in trailing 12-month earning over the past few years. But getting back to the quarter, another key driver of the results was strong net interest income, which increased 11% to \$1,827,000 in 2018's second quarter from \$1,649,000 in the year-ago quarter. Thanks to excellent asset quality, earnings also benefitted from a lower provision for loan losses, which was zero in 2018's



ASSETS: \$206 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

2ND QUARTER HIGHLIGHTS:

SECOND QUARTER EARNINGS WERE QUITE STRONG, WITH EPS UP 57%

THE RESULTS WERE MUCH BETTER THAN EXPECTED

EPS: \$0.22 vs. \$0.14

EARNINGS BENEFITTED FROM HIGHER NET INTEREST INCOME, A LOWER PROVISION, HIGHER NONINTEREST INCOME AND GOOD COST CONTAINMENT

NET INTEREST INCOME WAS UP 11%

NONINTEREST INCOME WAS STRONG AS WELL

KEY PROFITABILITY METRICS WERE ALSO IMPRESSIVE

SIX MONTHS HIGHLIGHTS:

EPS: \$0.41 vs. \$0.26

DEPOSITS INCREASED MORE RAPIDLY OVER THE PAST YEAR THAN LOANS, PARTLY DUE TO THE HIGHER LOAN-TO-DEPOSITS RATIO AT THE YEAR-AGO DATE

BLUEHARBOR BANK'S STOCK PERFORMANCE HAS BEEN QUITE STRONG

THE SHARES ARE UP MORE THAN 50% IN THE PAST YEAR

THE RETURNS ON A YEAR-TO-DATE, ONE YEAR AND THREE-YEAR BASIS EXCEED THOSE OF BROADER MARKET INDICES

ASSET QUALITY IMPROVED IN THE QUARTER

NPAs/ASSETS: 0.50%

RESERVES/LOANS HFI: 1.03%

**REPORTED EPS:
2016A: \$0.41
2017A: \$0.44 *
2018E: \$0.75**

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

second quarter, versus \$99,000 in the year-ago quarter. Trends in noninterest income were favorable, as it increased 8% in the quarter, while noninterest expense was up 10%, mainly due to expansion-related activities (a downtown Mooresville branch was opened in October 2017 and, in fact, a new main office is scheduled to open in 2018's third quarter). Finally, we would note that key profitability measures remained quite good in the quarter, one example being the previously mentioned efficiency ratio. blueharbor bank's annualized ROAE was 10.08% in the most recent quarter, up from 6.97% in the year-ago quarter, while the annualized ROAA was 1.26% and 0.90% in the same respective quarters.

Six Month Earnings Were Also Quite Strong

Earnings in the first six months of the year were likewise quite impressive, as net income for the first half of 2018 was \$1,226,000, or \$0.41 per diluted share, up from \$778,000, or \$0.26 per diluted share, in the year-ago period. Net interest income grew 14%, noninterest income was up 13% and noninterest expense increased 11%. As was mentioned earlier, the balance sheet growth was fairly contained, as assets grew 7% over the past year, while loans were up 1% and deposits increased 12%. The growth differentials in loans versus deposits make sense given that the loan-to-deposit ratio was somewhat higher than normal, at 104%, at the year-ago date. (The percentage was 94% at June 30, 2018.) blueharbor bank is in a good position to maintain this growth given its strong capital position. Shareholders' equity was \$26.3 million at June 30, 2018, or 12.8% of assets. All of the Bank's regulatory capital ratios comfortably exceed the minimums to be considered "well capitalized."

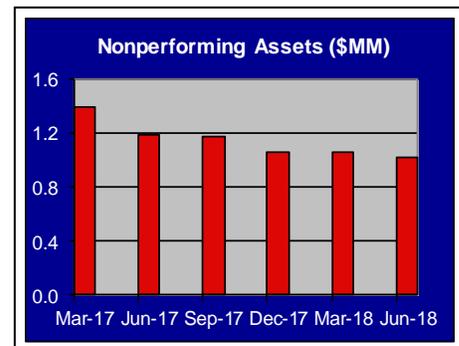
blueharbor bank's Stock Performance Has Been Impressive

blueharbor bank's stock performance has been quite strong, both on a short- and long-term basis. As can be seen from the adjacent table, the shares have appreciated 13% on a year-to-date basis, 51% over the past year and 71% over the past three years. The comparative rates of return for broader market indices, such as the KBW Bank Index, are significantly lower. While much of the superior performance of the stock is clearly attributable to the strong historical results, we also believe it is due to the favorable outlook for the Company and management's communication strategies with shareholders and the investment community.

Cumulative Returns Over:	Blueharbor (BLHK)		KBW NASDAQ	
	Price Increase	Annual Rate	Bank Index Increase	Annual Rate
Year-to-Date	13%	22%	2%	4%
One Year	51%	51%	16%	16%
Three Years	71%	20%	37%	11%

Asset Quality Is At the Best Level Since 2009

The overall level of nonperforming assets continues to drop. Specifically, nonperforming assets (including nonaccruing loans and OREO) were \$1,022,000, or 0.50% of assets, at June 30, 2018, versus at \$1,053,000, or 0.51% of assets, at March 31, 2018 and \$1,192,000, or 0.62% of assets, at June 30, 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 \$1,731,000, or 1.03% of loans, at June 30, 2018, versus \$1,715,000, or 1.03% of loans, at the year-ago date.



Projections Increased

Based on the strength of the second quarter results, we are increasing our 2018 earnings projections to \$2.3 million, or \$0.75 per diluted share, from \$2.2 million, or \$0.71 per diluted share, projected previously. These projections may vary considerably based on economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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