

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
May 24, 2019

Price:	\$12.51	EPS *	2017A:	\$ 0.44	Price/ EPS	2017A:	28.4 x
52 Wk. Range:	\$9.30 - \$13.00	(FY: DEC)	2018A:	\$ 0.83		2018A:	15.1 x
Div/Div Yld:	\$0.00 / 0.0%		2019E:	\$ 0.86		2019E:	14.5 x
Shrs/Mkt Cap:	2.9 mm / \$36 mm	Book Value:		\$10.07	Price/Book Value:		1.24 x

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

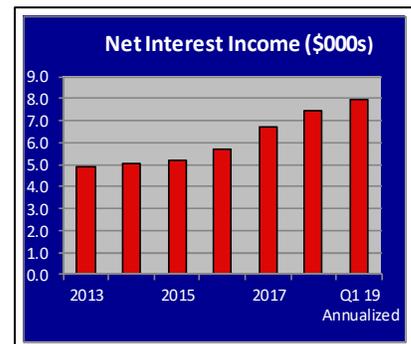
Background

With \$226 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 Were Right in Line With Projections

First quarter results were solid for blueharbor bank, with earnings coming in right in line with our projections. As has been occurring over the past several quarters, the increase in earnings was led by strong growth in net interest income, although higher noninterest income also contributed to the increase. Moreover, balance sheet growth was commendable, and was led by solid increases in loans, which should provide a nice tailwind for average earning assets (and therefore, net interest income) going forward. Finally, asset quality was good. Although NPAs were up from the level at March 31, 2018, they were steady relative to the level at year-end 2018.

Net income for the first quarter of 2019 was \$596,000, or \$0.20 per diluted share, versus \$578,000, or \$0.19 per diluted share, in the year-ago quarter. As was stated above, the key source of the higher earnings was growth in net interest income, which increased 11% to \$1,981,000 in 2019's first quarter from \$1,778,000 in the year-ago quarter, with that improvement due to progress in both margin and volume (average earning asset) growth. Based on annualizing 2019's first quarter's net interest income (and not even factoring in growth over the next three quarters), this level of net interest income represents a continuation of the improved momentum that began in 2016, as can be seen from the adjacent chart. Offsetting some of the benefits of the higher net interest income was a higher provision for loan losses, which was \$48,000 in the first quarter of 2019, versus \$9,000 in the year-ago quarter. Noninterest income also increased (it was up 7%), growing to \$177,000 from \$166,000 over the period, with higher mortgage and interchange fees more than



ASSETS: \$226 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

1ST QUARTER HIGHLIGHTS:

EPS: \$0.20 vs. \$0.19

NET INTEREST INCOME WAS UP A COMMENDABLE 11%, THANKS TO STRONG MARGINS AND GOOD EARNING ASSET GROWTH

NET INTEREST INCOME ACTUALLY STARTED ACCELERATING IN 2016 AND THAT STRENGTH HAS BEEN MAINTAINED INTO 2019

THE EARNINGS GROWTH WAS ACHIEVED DESPITE AN INCREASE IN THE PROVISION

NONINTEREST INCOME WAS UP 7%

NONINTEREST EXPENSE INCREASED 13%, REFLECTING SOME KEY PERSONNEL ADDITIONS

IN THE PAST YEAR, ASSETS INCREASED 10%, WHILE LOANS WERE UP 9% AND DEPOSITS WERE UP 6%

BLUEHARBOR OPERATES IN IREDELL AND MECKLENBURG COUNTIES, BOTH OF WHICH HAVE HIGHLY ATTRACTIVE DEMOGRAPHICS

BOTH COUNTIES HAVE POPULATION GROWTH THAT ARE MUCH HIGHER THAN NC AS A WHOLE AND ALSO HAVE HIGHER HOUSEHOLD INCOME LEVELS

MECKLENBURG COUNTY HAS A PARTICULARLY HIGH HOUSEHOLD INCOME

NPAs/ASSETS: 0.85%

RESERVES/LOANS HFI: 1.00%

**REPORTED EPS:
2017A: \$0.44 *
2018A: \$0.83
2019E: \$0.86**

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

offsetting small declines in service charges and ATM fees. Finally, noninterest expense grew 13% to \$1,357,000 in 2019's first quarter, versus \$1,197,000 in the year-ago quarter, with much of that increase due to expansion-related costs. Among other things, the Company has been adding key personnel to support its lending team, most recently adding two experienced lenders to serve the Lake Norman, Statesville and Iredell County markets. Annualized return on average assets was roughly 1.08% in 2019's first quarter, while annualized return on average equity was approximately 8.3%. One thing that makes this ROAE particularly impressive is the large amount of capital that the Company has to support future growth, as is discussed below.

Balance Sheet Growth Has Been Good and Capital Position Supports a Much Larger Bank

As was stated previously, blueharbor bank's has had solid balance sheet growth over the past year, with gross loans increasing 9% to \$188 million from \$173 million, while deposits grew 6% and assets increased 10%. One thing that puts blueharbor in a somewhat unique position for growth is the strength of its capital base. As of March 31, 2019, shareholders' equity was \$29.2 million, or 12.9% of total assets, versus \$25.4 million, or 12.3% of assets, at the year ago date.

blueharbor's Markets Are Highly Attractive, With Strong Demographics

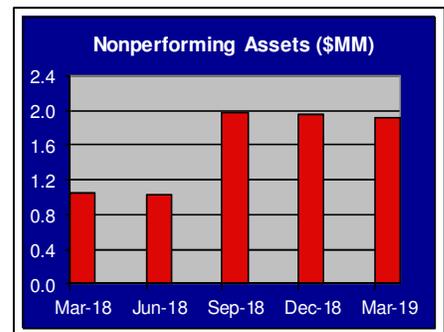
The attractiveness of the markets that a bank serves has a great deal of impact on the value of its franchise. Markets that are affluent and growing rapidly tend to be more highly valued (and tend to perform better, all else the same) than those that do not. In blueharbor's case, its branches are located in the Lake Norman area and are within either Iredell or Mecklenburg Counties, both of which have quite compelling demographics. For example, Mecklenburg

County	Branches	Population	Population Change		2019 Household Income	Proj. HH Income 2019-2024
			Actual 2010-2019	Projected 2019-2024		
Iredell	3	179,652	12.7%	6.4%	62,335	11.2%
Mecklenburg	1	1,107,795	20.5%	8.0%	69,996	13.0%
North Carolina	4	10,435,525	9.4%	5.2%	54,944	10.2%

County, where the Huntersville branch is located, has had population growth in the past ten years that is twice that of North Carolina as a whole, and its median household income was much higher as well. Iredell County likewise has had higher population growth and household income. Moreover, those trends are expected to continue, with both counties having superior population and household income projected growth over the next five years. 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. All of these factors make the franchise value more attractive and enhance the long-term outlook for the Company and its value.

Nonperforming Assets Are Holding Steady

Nonperforming assets (including nonaccruing loans and OREO) were \$1.9 million, or 0.85% of assets, at March 31, 2019, versus \$1.9 million, or 0.91% of assets, at December 31, 2018 and \$1.1 million, or 0.51% of assets, at March 31, 2018. 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 \$1.9 million, or 1.00% of loans, at March 31, 2019, versus \$1.7 million, or 1.00% of loans, at the year-ago date.



Projections

Based on the first quarter results, we are maintaining our 2019 earnings estimate at \$2.6 million, or \$0.86 per diluted share. These projections may vary considerably based on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2019 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.