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blueharbor bank (BLHK - OB)

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Price:	\$12.56	EPS *	2017A:	\$ 0.44	Price/ EPS	2017A:	28.5 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:	\$ 0.90		2019E:	14.0 x
Shrs/Mkt Cap:	2.9 mm / \$36 mm	Book Value:		\$10.39	Price/Book Value:		1.21 x

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

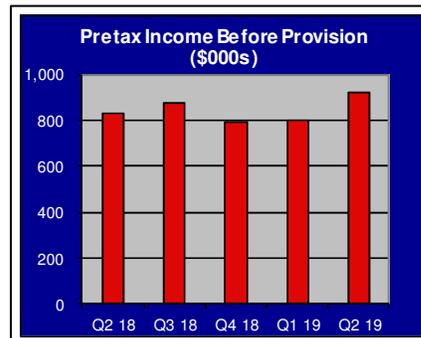
Background

With \$236 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 Increased 8%; Exceeded Projections

blueharbor bank reported solid second quarter of 2019 results that were \$0.03 ahead of our estimates. There were several positives of the quarter, such as a double-digit revenue increase, an improvement in margins, excellent growth in the balance sheet and solid asset quality. We were also impressed with the Bank's stellar efficiency (as discussed more on the next page), which has been one of the key underpinnings of its favorable profitability metrics such as ROAA and ROAE. Given the strength of the quarterly earnings, we have increased our 2019 earnings projections.

Net income was \$698,000, or \$0.23 per diluted share, up 8% from \$648,000, or \$0.22 per diluted share in the year-ago quarter, and up 17% from \$596,000, or \$0.20 per diluted share, on a linked quarter basis. We would note that there was a provision for loan losses of \$72,000 in 2019's second quarter, as compared to a provision of \$48,000 in 2019's first quarter and no provision in the year-ago quarter. Pretax income before the provision was up 12% from the year-ago quarter, and increased 16% on a linked quarter basis. The primary drivers behind the earnings growth were strong increases in both net interest income and noninterest income. Net interest income increased 10% to \$2,006,000 in 2019's second quarter from \$1,827,000 in the year-ago quarter, with the growth due both to higher average earning assets (up 8%) and a five basis point improvement in the net interest margin to 3.91% from 3.86%. Noninterest income also had excellent growth of 34% to \$249,000 in 2019's second quarter from \$186,000 in the year-ago quarter, while noninterest expense increased 12% to \$1,330,000 in 2019's second quarter. Annualized ROAA was 1.21% in the quarter, while annualized ROAE was 9.47%.



ASSETS: \$236 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

2ND QUARTER HIGHLIGHTS:

EPS: \$0.23 vs. \$0.22

NET INTEREST INCOME INCREASED 10%, REFLECTING IMPROVEMENT IN MARGINS AND GROWTH IN AVERAGE EARNING ASSETS

PRETAX INCOME BEFORE THE PROVISION GREW 12% FROM THE YEAR-AGO QUARTER AND 16% ON A LINKED QUARTER BASIS

NONINTEREST INCOME WAS UP 34%

FIRST HALF HIGHLIGHTS:

EPS: \$0.43 vs. \$0.41

**NET INCOME INCREASED 6%,
WHILE PRETAX INCOME BEFORE
THE PROVISION WAS UP 10%**

**BALANCE SHEET GROWTH WAS
IN THE 12% TO 15% RANGE**

**BLUEHARBOR HAS AN
EFFICIENCY RATIO OF 59%, THE
SECOND LOWEST (BEST) OF ALL
NC PUBLICLY TRADED BANKS**

**THE BANK HAS DONE AN
EXCELLENT JOB OF MANAGING
EXPENSES**

**BLUEHARBOR ALSO HAS THE
HIGHEST ASSETS PER EMPLOYEE
RATIO OF ITS PEER GROUP**

**ASSET QUALITY HAS BEEN
IMPROVING ON A LINKED
QUARTER BASIS**

NPAs/ASSETS: 0.80%

RESERVES/LOANS HFI: 1.01%

REPORTED EPS:

2017A: \$0.44 *

2018A: \$0.83

2019E: \$0.90

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

For the first six months of 2019, blueharbor reported net income of \$1,295,000, or \$0.43 per diluted share, which was up from \$1,226,000, or \$0.41 per diluted share, in the year-ago period. Net interest income was up 11% compared to the first half of 2018, while noninterest income grew 21% over the same period. Noninterest expense, reflecting expansion activities, was up 13% compared to the first six months of 2018, and the provision for loan losses totaled \$121,000 versus \$9,381 over the same period. Pretax income before the provision for loan losses increased 10%. Balance sheet growth from June 30, 2018 to June 30, 2019 was excellent, with strong linked quarter momentum. Specifically, gross loans and total assets grew 15% and deposits were up 12% relative to year-ago levels. The Bank remains particularly well capitalized to support this rapid growth, with shareholders' equity of \$30.1 million, or 12.76% of total assets at June 30, 2019, which was up from \$26.2 million, or 12.75% of assets, at the year ago date. At June 30, 2019, the leverage ratio was 13.1%, the tier 1 risk-based capital ratio was 14.8% and the total risk-based capital ratio was 15.7%.

blueharbor is One of the Most Efficient Banks in North Carolina

blueharbor is one of the most efficiently run banks in NC. A good deal of its success comes from its prudent use of employees, although its non-personnel costs tend to run much lower than the typical bank as well. Its efficiency ratio for the second quarter of 2019 was 58.9%, which was the second lowest (best) of all 20 publicly traded banks in NC and also the second best compared to the Bank's peer group, which includes 11 NC banks with assets between \$250 million and \$1 billion. (The median efficiency ratio for the peer group was 73.5%.)

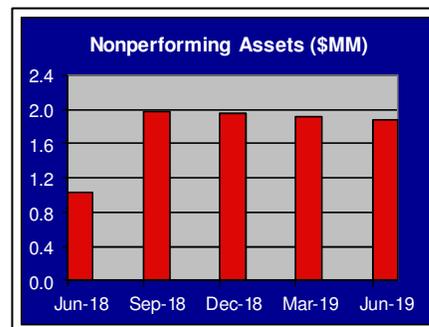
Expense Analysis, As a % of Avg. Assets (MRQtr)		
	BLHK	NC Peer Median
Compensation & Benefits	0.29	0.50
Occupancy & Equipment	0.07	0.09
Professional Fees	0.04	0.05
Marketing & Promotion	-	0.02
Other Expense	0.06	0.13
Total Noninterest Expense	0.58	0.89

In order to better assess how blueharbor is able to achieve this efficiency, we analyzed certain key expenses in relation to average assets for the Bank and compared those to its peer group. As can be seen in the adjacent table, compensation and benefits, which typically makes up the majority of a bank's expenses, was 0.29% of average assets for blueharbor, versus

0.50% for its peer median. In fact, every expense category as a percentage of average assets was lower for blueharbor than it was for the peer group median. A good part of this can be attributed to the Bank's high assets per employee ratio. For the second quarter of 2019, the Bank had assets per employees of roughly \$8.7 million (the highest of the peer group), which was nearly twice the peer group median of \$4.6 million. Clearly the Bank's ability to effectively contain expenses and operate with fewer employees has important implications for its long-term performance.

Asset Quality Remains Sound

At June 30, 2019, blueharbor had nonperforming assets (including nonaccruing loans and OREO) of \$1.88 million, or 0.80% of total assets, compared to \$1.92 million, or 0.85% of assets, at March 31, 2019, and \$1.02 million, or 0.50% of assets, at June 30, 2018. A significant portion of the current NPAs is in one OREO that is on the books below appraised value. The allowance for loan losses was \$2.0 million, or 1.01% of loans, at June 30, 2019, versus \$1.7 million, or 1.03% of loans, at the year-ago date. There were no charged-off loan balances during the first half of 2019.



Projections Increased

Based on the second quarter results, we are increasing our 2019 earnings estimate to \$2.7 million, or \$0.90 per diluted share, up from \$2.6 million, or \$0.86 per diluted share projected previously. These projections may vary considerably based on changing economic conditions.

ADDITIONAL INFORMATION UPON REQUEST

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