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blueharbor bank (BLHK – OTC Pink)

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May 6, 2020

Price:	\$8.49	EPS *	2018A:	\$ 0.83	Price/ EPS	2018A:	10.2 x
52 Wk. Range:	\$7.26 - \$13.00	(FY: DEC)	2019A:	\$ 1.01		2019A:	8.4 x
Div/Div Yld:	\$0.00 / 0.0%		2020E:	NA		2020E:	NA
Shrs/Mkt Cap:	3.0 mm / \$51 mm	Book Value:		\$11.14	Price/Book Value:		0.76 x

* Earnings per share are diluted. For at least the next quarter or two, we are suspending our earnings projections given the difficulties of assessing the impact of COVID-19. We anticipate resuming earnings projections once economic conditions become clearer.

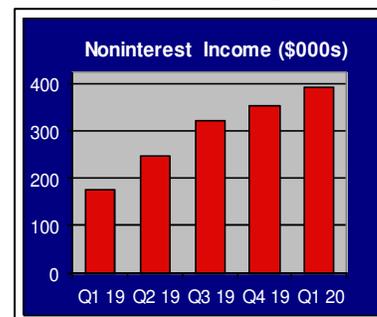
Background

With \$258 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 Net Income Was Up 17%, Pretax Income Before Provision Grew 31%

Despite the pressures brought on by the pandemic, blueharbor bank reported strong double-digit growth in earnings for the first quarter of 2020. Total revenues were strong, with a particularly solid increase in noninterest income. Profitability ratios improved from the year-ago quarter, and balance sheet growth remained impressive and was led by deposits. Finally, asset quality was quite good, with delinquencies well below year-ago figures. It was also a quarter in which the Bank did, in our view, a great job of responding to customers who have been negatively affected by the COVID-19 crisis. As is discussed in more detail on the opposite page, the Bank has been actively processing Paycheck Protection Plan ("PPP") applications and adopting a number of other initiatives to accommodate struggling borrowers and depositors.

In terms of specific results, blueharbor bank reported net income of \$699,000, or \$0.23 per diluted share, in 2020's first quarter, which was up 17% from \$596,000, or \$0.20 per diluted share, in the year-ago quarter. Due to higher economic uncertainties brought on by the pandemic, the Bank did boost its provision for loan losses to \$162,000 in the first quarter of 2020 from \$48,000 in the year-ago quarter. That increase in the provision tended to obscure the strength of recurring earnings, as pretax income before the provision was up 31% to \$1,052,000 in 2020's first quarter. Net interest income increased 9% to \$2,163,000 in 2020's first quarter from \$1,981,000 in the year-ago quarter, with the growth entirely due to an 11% increase in average earning assets, as the net interest margin was relatively unchanged from



ASSETS: \$258 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

1ST QUARTER HIGHLIGHTS:

EPS: \$0.23 vs. \$0.20

THE BANK INCREASED THE PROVISION IN RESPONSE TO THE ECONOMIC UNCERTAINTY FROM THE COVID-19 CRISIS

NET INTEREST INCOME GREW 9%

THE MARGIN REMAINED RELATIVELY FLAT, WHILE AVERAGE EARNING ASSETS WERE UP 11%

NONINTEREST INCOME DOUBLED FROM THE YEAR-AGO QUARTER, PARTLY DUE TO HIGHER FEES ON MORTGAGE LOANS SOLD

PROFITABILITY AND EFFICIENCY RATIOS IMPROVED

FROM 3/31/19 TO 3/31/20: NET LOANS GREW 12%, DEPOSITS WERE UP 17% AND ASSETS INCREASED 14%

EQUITY/ASSETS: 12.7%

BLUEHARBOR BANK ENTERED THE COVID-19 CRISIS WITH STRONG MOMENTUM AND A SOLID CAPITAL BASE

THE BANK HAS PROCESSED OVER 150 LOANS FOR OVER \$16 MILLION THROUGH THE SBA'S PPP

NPAs/ASSETS: 0.30%

THE BANK'S NPAs/ASSETS AND RESERVES/LOANS RATIOS WERE BETTER THAN THE NC PEER GROUP MEDIAN

RESERVES/LOANS HFI: 1.06%

**REPORTED EPS:
2018A: \$0.83
2019A: \$1.01
2020E: NA**

PROFITABILITY AND EFFICIENCY RATIOS (%)		
	Q1 19	Q1 20
ROAA	1.10	1.14
ROAE	8.00	8.61
Efficiency	62.9	58.8

the year-ago quarter. Noninterest income (shown in the adjacent chart) was also quite strong, doubling to \$392,000 in 2020's first quarter from \$177,000 in the year-ago quarter, and it has been sequentially accelerating for the past several quarters. This strength has partly been due to the strong showing in fees on mortgage loans sold in the secondary market, which increased nearly \$93,000 compared to the year-ago quarter. Noninterest expense was up 11% to \$1,503,000 for 2020's first quarter from \$1,356,000 in the year-ago quarter. Most of the key performance

metrics for the Company improved in 2020's first quarter relative to the year-ago quarter, as can be seen in the adjacent table.

Balance Sheet Growth was Strong, With Deposits Up 17%

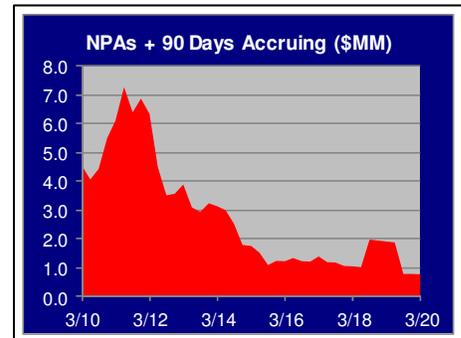
Balance sheet growth over the past year was quite impressive, with double-digit increases. From March 31, 2019 to March 31, 2020, net loans were up 12%, deposits increased 17% and total assets grew 14%. Growth from year-end 2019 was good also, especially for deposits, which grew 7% (27% annualized). The Bank continues to maintain a solid capital position, with shareholder's equity of \$32.9 million, or 12.7% of total assets, versus \$29.2 million, or 12.9% of total assets, at the year-ago date. All of the Bank's regulatory ratios comfortably exceed the minimums to be considered "well capitalized."

blueharbor bank and COVID-19

Although it is difficult to fully anticipate the full impact of COVID-19 on blueharbor bank, we expect it may lead to pressure on earnings and higher delinquencies, as it likely will at nearly all banks. However, it is important to keep in mind that blueharbor entered the crisis with excellent earnings and balance sheet momentum, not to mention excellent asset quality. Longer term, the Bank is likely to generate significant goodwill from the way it has responded to the crisis. One notable example is its processing of over 150 loans (totaling over \$16 million) under the PPP, which incidentally, should generate at least a few hundred thousand dollars in fees. Operationally, the bank continues to emphasize safety and is encouraging its online and mobile solutions, conducting transactions at the front door of some branches, providing service through drive-through locations, and offering lobby access through appointment.

Asset Quality Continued to Improve at March 31, 2020; NPAs Down 60% from Year-Ago Date

As can be seen from the chart to the right, the long-term trends in asset quality remain favorable. As of March 31, 2020, blueharbor's nonperforming assets (including nonaccruing loans and OREO) were \$776,000, or 0.30% of total assets, compared to \$779,000, or 0.32% of total assets, at December 31, 2019, and \$1,918,000, or 0.85% of total assets, at the year-ago date. We would note that the Bank's asset quality was better than its NC peers, as its NPAs/assets ratio was lower (0.30% versus 0.32%) than the NC peer group median, while its reserves/loans ratio was higher (1.06% versus 1.00%). The allowance for loan losses was \$2.2 million at March 31, 2020 (1.06% of loans), up from \$1.9 million (1.00% of loans), at the year-ago date.



Projections Suspended Due to COVID-19

For at least the next quarter or two, we are suspending our earnings projections given the difficulties of assessing the impact of COVID-19. We anticipate resuming earnings projections once economic conditions become clearer.

ADDITIONAL INFORMATION UPON REQUEST

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