

AVAILABLE ON THE WEB AT www.equityresearch.com
blueharbor bank (BLHK – OTC Pink)

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August 4, 2020

Price:	\$8.40	EPS *	2018A:	\$ 0.83	Price/ EPS	2018A:	10.1 x
52 Wk. Range:	\$7.26 - \$13.00	(FY: DEC)	2019A:	\$ 1.01		2019A:	8.3 x
Div/Div Yld:	\$0.00 / 0.0%		2020E:	NA		2020E:	NA
Shrs/Mkt Cap:	2.9 mm / \$25 mm	Book Value:		\$11.59	Price/Book Value:		0.72 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.

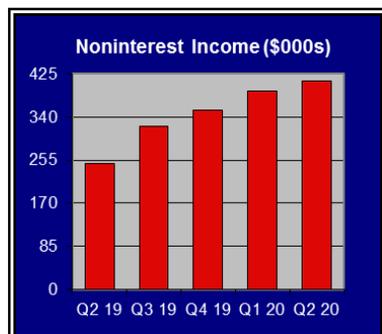
Background

With \$285 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."

Net Income Increased 17% and Pretax, Pre-Provision Income Was Up 48%

blueharbor bank reported excellent results for the second quarter of 2020. Even though the economy is still suffering from the COVID-19 crisis, the Bank reported strong revenue growth (especially in noninterest income), good cost containment, solid asset quality and double-digit balance sheet growth. Part of the strong growth in the quarter was due to the Bank's participation in the SBA's Paycheck Protection Program ("PPP"). Through June 30, 2020, blueharbor approved 173 PPP loans, amounting to approximately \$16.5 million. The deferred fees on those loans (which will be recognized over the life of the loan) totaled \$0.7 million.

Reported net income was \$817,000, or \$0.27 per diluted share, for the second quarter of 2020, up 17% from \$698,000, or \$0.23 per diluted share, in the year-ago quarter. Net interest income was up 9% to \$2,193,000 in 2020's second quarter from \$2,006,000 in the year-ago quarter, with 20% growth in average earning assets more than offsetting a decline in the net interest margin. Mitigating this strength in net interest income was a higher provision for loan losses, reflecting management's decision to more defensively position the Bank given the higher risk from the economic slowdown. Specifically, the provision for loan losses was \$328,000 in 2020's second quarter, up from \$72,000 in the year-ago quarter. One of the high spots in the quarter was noninterest income, which as can be seen



in the adjacent chart, has been consistently increasing over the past year, rising to \$411,000 in

ASSETS: \$285 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

2ND QUARTER HIGHLIGHTS:

EPS: \$0.27 vs. \$0.23

**THE PROVISION FOR LOAN
LOSSES INCREASED
SIGNIFICANTLY**

**NET INTEREST INCOME WAS
UP 9%, DUE TO AVERAGE
EARNING ASSET GROWTH OF
20%**

**NONINTEREST INCOME HAS
BEEN PARTICULARLY STRONG,
PARTLY DUE TO THE
ADDITION OF LEASING
INCOME**

LEASING INCOME WAS A BIG PART OF THE INCREASE IN NONINTEREST INCOME

NONINTEREST EXPENSE WAS DOWN 18% FROM Q1 2020 AND 7% FROM Q2 2019

FIRST HALF HIGHLIGHTS:

EPS: \$0.50 vs. \$0.43

LOANS GREW 18% OVER THE PAST YEAR, WHILE ASSETS WERE UP 21% AND DEPOSITS INCREASED 24%

EQUITY/ASSETS: 12.0%

THE COMPANY'S PERFORMANCE METRICS ARE BETTER THAN ITS PEERS:

- HIGHER PROFITABILITY
- BETTER CAPITALIZED
- STRONGER GROWTH
- SUPERIOR ASSET QUALITY

DESPITE THE SUPERIOR PROFITABILITY RATIOS, THE STOCK TRADES AT A DISCOUNT ON THE BASIS OF MULTIPLES OF BOOK VALUE AND EARNINGS

NPAs/ASSETS: 0.27%

RESERVES/LOANS HFI: 1.13%, OR 1.22% EXCLUDING PPP LOANS

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

2020's second quarter from \$249,000 in the year-ago quarter. Leasing income (a new fee source) accounted for most of this growth, although mortgage fees and BOLI income was also higher. Noninterest expense was lower, though a good deal of that drop was due to the deferral of certain employee costs associated with the origination of PPP loans. Noninterest expense dropped to \$1,235,000 in 2020's second quarter, which was down 18% from \$1,503,000 in 2020's first quarter and down 7% from \$1,330,000 in the year-ago quarter. Profitability levels were also high. Annualized ROAE was 9.79% in 2020's second quarter, while annualized ROAA was 1.19%, both of which were well above peers for comparable institutions (see further discussion below).

Pretax Pre-Provision Income Increased 40% For the First Half of 2020

Results for the first half of 2020 were also strong, and were impacted by a significantly higher provision for loan losses, which was \$490,000 in 2020's first half, as compared to \$121,000 in the first half of 2019. Net income was \$1,516,000, or \$0.50 per diluted share, for the first six months of 2020, up 17% from \$1,295,000, or \$0.43 per diluted share, in the year-ago period, while pretax, pre-provision income was up 40% over this period. Net interest income increased 9%, noninterest income was up 88% and noninterest expense grew a modest 2% from the first half of 2019. Balance sheet growth was excellent, with loan growth benefitting from the PPP participation. From June 30, 2019 to June 30, 2020, net loans grew 18%, deposits increased 24% and total assets grew 21%. blueharbor's capital position remains strong, with shareholder's equity of \$34.1 million, or 12.0% of total assets, versus \$30.1 million (12.8%) at the year-ago date. All of the Bank's regulatory ratios comfortably exceed "well-capitalized" minimums.

blueharbor bank's Relative Performance Is Excellent; Valuation Appears Quite Reasonable

blueharbor bank's strong performance becomes all the more apparent when viewing it relative to other banks. For example, if we compare blueharbor to roughly 40 NC, SC and VA public banks with assets less than \$1 billion, we see that BLHK's ROAA (trailing 12 months) was much higher than the peers, as was its ROAE, despite the fact that it is very well capitalized. Its efficiency ratio was among the best in the group (lower is better) and its loan growth and asset quality have been superior as well. Despite the far superior profitability metrics, the stock trades at a discount to the medians for the group. Over time, investors tend to achieve excess returns by paying below market multiples for high-performing companies.

	ROAA LTM	Tangible Equity/ Assets	ROAE LTM	Efficiency Ratio LTM	NPAs/ Assets	Loan Growth LTM	Price/TTM Core EPS	Price/Tang. Book Value
BLHK	1.31%	12.0%	10.2%	54.1%	0.27%	18%	7.8x	0.72x
Peer Median	0.87%	9.5%	8.1%	70.9%	0.34%	14%	10.5x	0.77x

NPAs Were Down 59% From June 30, 2020, Allowance for Loan Losses Up 31%

blueharbor bank's asset quality remains good. At June 30, 2020, nonperforming assets ("NPAs", which included nonaccruing loans and OREO) were \$773,000, or 0.27% of total assets, down slightly from \$776,000, or 0.30% of total assets, at March 31, 2020 and down 59% from \$1,881,000, or 0.80% of total assets, at the year-ago date. The allowance for loan losses was \$2,564,000 at June 30, 2020 (1.13% of loans), up 31% from \$1,953,000 (1.02% of loans), at the year-ago date. The allowance as a percentage of gross loans excluding the PPP loans was 1.22% at June 30, 2020.

Projections Suspended Due to COVID-19

For at least the next few quarters, 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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