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blueharbor bank (BLHK – OTC Pink)

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| | | | | | | | |
|----------------------|------------------|--------------------|---------------|---------|--------------------------|---------------|--------|
| Price: | \$9.19 | EPS * | 2019A: | \$ 1.01 | Price/ EPS | 2019A: | 10.1 x |
| 52 Wk. Range: | \$7.26 - \$13.00 | (FY: DEC) | 2020E: | NA | | 2020E: | NA |
| Div/Div Yld: | \$0.00 / 0.0% | | 2021E: | NA | | 2021E: | NA |
| Shrs/Mkt Cap: | 2.9 mm / \$27 mm | Book Value: | | \$11.86 | Price/Book Value: | | 0.77 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.

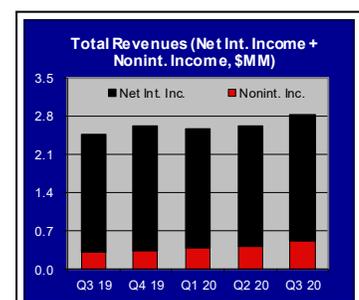
Background

With \$312 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. They also operate two loan production offices in Belmont and Morehead City, which are located in Gaston and Carteret 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."

Third Quarter Pretax, Pre-Provision Income Increased 20%

blueharbor bank reported strong operating results for the third quarter of 2020. Although reported earnings dropped from the year-ago figures, all of that decline was due to a significant increase in the provision for loan losses, reflecting strong loan growth and management's intention to more conservatively position the Bank given uncertainties related to COVID-19. In the absence of the provision increase, earnings would have increased sharply. There were a number of other positives as well. The increase in total revenues was impressive, particularly in noninterest income, and balance sheet growth was in the double-digits. Finally, asset quality remained quite sound. Although nonperforming assets increased, most key asset quality metrics remain superior to the majority of the Company's peers.

Net income was \$789,000, or \$0.26 per diluted share, for the third quarter of 2020, as compared to \$869,000, or \$0.29 per diluted share, for the third quarter of 2019. As was stated above, the decline was entirely provision based, as the provision for loan losses increased to \$300,000 in 2020's third quarter from no provision in the year-ago quarter. In fact, the pretax, pre-provision income was \$1,305,000 in 2020's third quarter, up 20% from \$1,087,000 in the year-ago quarter. This improvement in pre-provision earnings was mainly due to a 15% increase in total revenues. Noninterest income growth was especially impressive, as it increased to \$519,000 in the third quarter of 2020 from \$321,000 in the year-ago quarter, mainly because of mortgage fee income and facility rental income gains. Net interest income growth was also notable,



ASSETS: \$312 MM

HQ: MOORESVILLE, NC

CONTACT:
JIM MARSHALL
PRESIDENT & CEO

(704) 662-7700

3RD QUARTER HIGHLIGHTS:

EPS: \$0.26 vs. \$0.29

THE PROVISION FOR LOAN LOSSES WAS \$300,000, VERSUS NO PROVISION IN THE YEAR-AGO QUARTER

ALTHOUGH NET INCOME WAS DOWN, THE PRETAX, PRE-PROVISION INCOME GREW 20%

NET INTEREST INCOME INCREASED 8%, AND AVERAGE EARNING ASSETS WERE UP 30%

NONINTEREST INCOME GREW 61% FROM 2019'S THIRD QUARTER

YTD 2020 HIGHLIGHTS:

EPS: \$0.76 vs. \$0.71

PRETAX, PRE-PROVISION INCOME WAS UP 32%

FROM 9/30/19 TO 9/30/20: NET LOANS WERE UP 19%, DEPOSITS INCREASED 33% AND TOTAL ASSETS WERE UP 30%

EQUITY/ASSETS: 11.2%

THE STRONG CAPITAL POSITION HAS ALLOWED THE COMPANY TO PURSUE STOCK BUYBACKS

NPAS/ASSETS: 0.34%

RESERVES/LOANS HFI: 1.21%

BLUEHARBOR HAS A LOWER RATIO OF NPAS/ASSETS COMPARED TO ITS PEER GROUP MEDIAN...

...AND HIGHER RATIOS OF RESERVE COVERAGE COMPARED TO THE MAJORITY OF ITS SE PEERS

REPORTED EPS:

2019A: \$1.01

2020E: NA

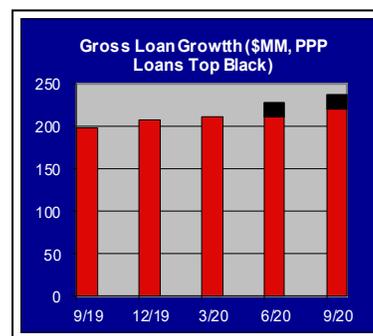
2021E: NA

though, as it totaled \$2,307,000 in 2020's third quarter, up 8% from \$2,141,000 in the year-ago quarter, and benefitted mainly from average asset growth, which was up 30%. Finally, noninterest expense was \$1,521,000 in 2020's third quarter, up 11% from \$1,376,000 in the year-ago quarter. We were also impressed with blueharbor's profitability and efficiency ratios. ROAA in 2020's third quarter was 1.06%, while ROAE was 9.04% and the efficiency ratio was 53.8%.

Pretax Pre-Provision Income Was Up 32% For the First Nine Months of 2020

Earnings for the first nine months of 2020 were likewise impacted by a significantly higher provision, which increased to \$790,000 in the first nine months of 2020 from \$121,000 in the first nine months of 2019. While net income was \$2,305,000 in 2020's first nine months, which was up 7% from \$2,164,000 in the year-ago period, pretax pre-provision income grew 32% compared to the year-ago period. Net interest income was up 9%, while noninterest income increased 77% compared to the same time period. Noninterest expense grew a modest 5% year-to-date in 2020 versus the year-ago period.

Balance sheet growth remains quite good. From September 30, 2019 to September 30, 2020, net loans grew 19% to \$234 million, deposits were up 33% to \$274 million and total assets increased 30% to \$312 million. While these figures include the growth from PPP loans (which were \$16.4 million), it is noteworthy that loans have increased even excluding the PPP loans, as can be seen graphically in the adjacent chart. (Loans were up 5% from the end of 2020's second quarter to the end of 2020's third quarter, none of which was PPP.) blueharbor continues to maintain a strong capital position. Shareholder's equity was \$34.9 million, or 11.2% of total assets, at September 30, 2020, which was up from \$31.0 million, or 12.9% at the year-ago date, and all of the Bank's regulatory ratios comfortably exceed "well-capitalized" minimums. This strong capital position has allowed the Company to repurchase its own stock, which we view as a compelling use of excess liquidity.



blueharbor's Overall Asset Quality is Better Than Most of its SE Peers

Asset quality remains sound and is better than most of the Company's peers. As of September 30, 2020, nonperforming assets ("NPAs", which included nonaccruing loans and OREO) were \$1,061,000, or 0.34% of total assets, as compared to \$773,000, or 0.27% of total assets, at June 30, 2020 and \$782,000, or 0.33% of total assets, at the year-ago date. The allowance for loan losses totaled \$2,864,000 as of September 30, 2020, or 1.21% of loans, which was up 44% from \$1,987,000, or 1.00% of loans, at the year-ago date. As can be seen from the adjacent table, blueharbor's ratio of NPAs/assets was lower than the peer group median, and its reserve coverage was better based on the reserves/NPAs and reserves/loans ratios. The peer group included 37 publicly traded banks in NC, SC and VA with total assets between \$100 million and \$1 billion.

| ASSET QUALITY VS. SE PEERS | | |
|----------------------------|-------------|-----------------------------|
| | <u>BLHK</u> | <u>SE Peer Group Median</u> |
| NPAs/Assets (%) | 0.34 | 0.56 |
| Reserves/NPAs (x) | 2.70 | 0.96 |
| Reserves/Loans (%) | 1.21 | 1.02 |

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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