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UB Bancorp (UBNC – OTCQX)

107 Windel Dr., Suite 211

Raleigh
North Carolina
27609

919-876-8868 ph

www.equityresearch.com

John A. (Buddy) Howard, CFA
May 4, 2020

Price (May 4, 2020):	\$8.91	EPS*	2018A:	\$ 1.12	P/E	2018A:	8.0 x
52 Wk. Range:	\$8.81 - \$15.00	(FY: DEC)	2019A:	\$ 1.19		2019A:	7.5 x
Div/Div Yld:	\$0.20 / 2.2%		TTM 3/31/20A:	\$ 1.21		TTM 3/31/20A:	7.3 x
Shrs/Mkt Cap:	5.9 mm / \$53 mm	Tangible Book Value:		\$ 12.05	Price/Tang. Book Value:		0.74 x

* EPS are diluted. Book value per share is \$14.40.

Background

UB Bancorp (the “Company”) is the recently established (May 1, 2020) holding company for Union Bank. Union Bank (“the Bank”) is the resulting Bank from the 2017 merger of the little bank with Union Banc Corp. Headquartered in Greenville, NC, it currently has \$867 million in total assets and primarily serves central and eastern NC through 14 full-service offices located in Lenoir, Granville, Wayne, Franklin, Vance, Onslow, Person, Pitt, Craven, New Hanover, and Wake Counties, as well as a loan production office in Burlington, NC. The Bank provides banking and financial services to individuals and small to medium-sized businesses, with an emphasis on providing its customers with “modern day technology combined with old-fashioned personal customer service.” Products offered include personal and business checking, savings, and money market accounts, personal, mortgage and business loans, and personal and business credit cards. The Bank also provides options for mobile and online banking, e-statements and digital wallets. The Company’s stock is traded on the OTCQX marketplace under the symbol UBNC.

First Quarter Earnings Increased 6%; Pretax Income Before Provision Grew 11%

UB Bancorp reported solid results for the first quarter of 2020, with strong revenues, excellent balance sheet growth (particularly in loans) and solid asset quality metrics. There was not a significant impact from COVID-19 in the first quarter, although the provision for loan losses did increase, in part reflecting the higher economic risks from the shutdown and pandemic. While we expect negative effects from COVID-19 for a number of periods to come, we are heartened by the fact that the Company entered the crisis in excellent shape from an earnings momentum, capital strength, balance sheet and asset quality standpoint. Moreover, management has been aggressively serving its small business clientele by actively processing Paycheck Protection Program (“PPP”) applications. We believe the Bank will actually generate a significant amount of goodwill from the way it has responded to this crisis, particularly as more people in the community hear the extent of its efforts and community support. To protect its staff and customers, the Bank is currently only providing drive-thru service, with lobby service by appointment only, and is working extensively with customers as they deal with financial hardships.

In terms of specific results, net income was \$1,733,000, or \$0.29 per diluted share, in the first quarter of 2020, which was up 6% from \$1,639,000, or \$0.27 per diluted share, in the year-ago quarter. As mentioned above, the provision increased 67% to \$355,000 in 2020’s first quarter from \$212,000 in the year-ago quarter, some of which was due to loan growth, but also to COVID-19. Pretax income before the provision increased 11% from the year-ago quarter. Net interest income grew 6% to \$7,011,000 in 2020’s first quarter from \$6,604,000 in the year-ago quarter, with the growth primarily due to larger average earning assets base. Noninterest income increased 14% to \$806,000 in the first quarter of 2020 from \$704,000 in the first quarter of 2019. Expense containment was impressive, as noninterest expense grew a modest 5% to \$5,319,000 in 2020’s first quarter from \$5,049,000 in the year-ago quarter, and decreased slightly from \$5,399,000 in the fourth quarter of 2019. In terms of the

SYMBOL: UBNC

TOTAL ASSETS: \$867 MM

HQ: GREENVILLE, NC

CONTACT:
SCOTT C. “MAC” MCLEAN,
CFO
(252) 215-3030

1ST QUARTER HIGHLIGHTS:

**NET INCOME INCREASED 6%,
WHILE PRETAX INCOME
BEFORE THE PROVISION WAS
UP 11%**

**THE PROVISION GREW 67%
DUE TO STRONG LOAN GROWTH
AND THE RISKS SURROUNDING
COVID-19**

EPS: \$0.29 vs. \$0.27

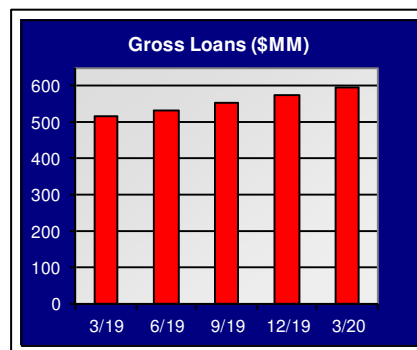
**NET INTEREST INCOME
WAS UP 6%, WHILE
NONINTEREST INCOME
GREW 14%**

**NONINTEREST EXPENSE WAS
UP ONLY 5% FROM THE YEAR-
AGO QUARTER AND DECREASED
ON A LINKED QUARTER BASIS**

FROM 3/31/19 TO 3/31/20:

ASSETS GREW 12%, NET LOANS WERE UP 15% AND DEPOSITS GREW 6%

balance sheet, we mentioned the strong 15% loan growth, but other areas of strength included total assets, which were up 12% over the past year, with deposits growing 6%. The Company remained in good shape in terms of capital at March 31, 2020, with shareholders' equity of \$85.5 million, or 9.9% of total assets, compared to \$80.7 million, or 10.5% of total assets, at the year-ago date.



Update of Peer Group Comparisons

The Company's stock price has contracted as a result of the COVID-19 concerns, as has been the case for the banking industry as a whole. However, as can be seen from the table below (which we are updating from our last report), UB Bancorp's profitability measures such as ROAA and ROATCE were in line with or superior to the medians for its NC peer group (which included 12 banks with assets between \$100 million and \$1.3 billion). The Company's loan growth was also much better than the peer median, as was its asset quality. Despite the superior performance metrics, the shares are trading at a discount to the medians on multiples of earnings and tangible book value. The dividend yield is likewise higher. From a long-term standpoint, excess returns are often earned by investors who acquire better than average companies that are trading at below market multiples.

THE SHARES TRADE AT A DISCOUNT TO THE MARKET AND PAY A HIGHER DIVIDEND YIELD

	ROAA MRQtr	ROATCE * MRQtr	Loan Growth LTM	NPA's/ Assets	Dividend Yield	Price/ TTM EPS	Price/Tang. Book Value
UBNC	0.84%	10.13%	15.4%	0.07%	2.2%	7.4x	0.74x
Peer Median	0.66%	6.52%	6.7%	0.44%	1.2%	9.4x	0.80x

* Return on average tangible common equity; excludes amortization of intangibles

UNION BANK HAS PROVIDED OVER \$45.0 MILLION IN FUNDING THROUGH THE PPP

THE BANK HAS ALSO DONATED \$100,000 TO THE SALVATION ARMY TO PROVIDE ASSISTANCE TO ITS COMMUNITIES DURING THE PANDEMIC

A Few Comments About the Company's Response to COVID-19

There are perhaps no better times than these to understand the critical role that a *community* bank can play with its customers and their financial needs. We emphasize the word "community" in part because of reports we have received that many megabanks have been slow to process PPP applications and/or to work with struggling customers. The Company has already provided nearly \$40.0 million in PPP funding, and that does not include the second round of funds Congress recently approved. Moreover, at the end of March 2020, the Bank committed to giving The Salvation Army \$100,000 to help families and individuals in its footprint impacted by COVID-19 and to provide food and meal assistance.

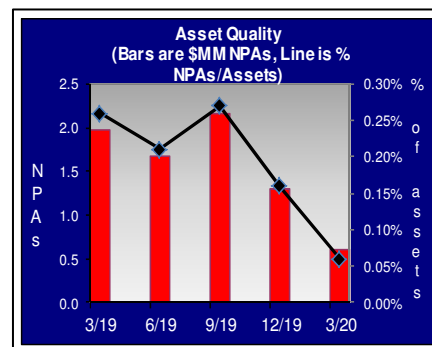
NPAS REACHED THE LOWEST THEY HAVE BEEN SINCE THE THIRD QUARTER OF 2014

NPAS-TO-ASSETS: 0.07%

RESERVES-TO-LOANS: 0.89%

Nonperforming Assets Continue to Decrease

Asset quality remains excellent at UB Bancorp, with nonperforming assets ("NPAs") dropping to the lowest level since 2014's third quarter. NPAs (which include nonaccruing loans, loans more than 90 days past due and still accruing and OREO), totaled \$606,000, or 0.07% of total assets, at March 31, 2020, versus \$1,301,000, or 0.16% of total assets, at December 31, 2019, and \$1,981,000, or 0.26% of assets, at the year-ago date. The allowance for loan losses was \$5.3 million, or 0.89% of total loans at March 31, 2020, up 25% from \$4.3 million, or 0.82% of total loans, at March 31, 2019.



ADDITIONAL INFORMATION UPON REQUEST

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