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UB Bancorp (UBNC – OTCQX)

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Price:	\$16.75	EPS*	2019A:	\$ 1.19	P/E	2018A:	14.1 x
52 Wk. Range:	\$8.88 - \$16.75		2020A:	\$ 0.84		2019A:	19.9 x
Div/Div Yld:	\$0.21 / 1.3%		TTM 3/31/21A:	\$ 1.05		TTM 3/31/21A:	16.0 x
Shrs/Mkt Cap:	6.0 mm / \$99 mm	Tangible Book Value:	\$ 13.20		Price/Tang. Book Value:		1.27 x

* EPS are diluted. Book value per share is \$15.46.

Background

UB Bancorp (the “Company”) is the 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 \$1.1 billion 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 Were Up 72%

The first quarter of 2021 was an excellent quarter for UB Bancorp from several standpoints. First, earnings were at a record level, benefitting from the recognition of \$1.1 million in Payroll Protection Program (“PPP”) net revenue, a drop in the provision for loan losses and good expense control. Second, balance sheet growth was good, partly due to the effects (both on the loan and deposit side) of PPP, but also due to the addition of new customers. Third, asset quality remained excellent, with a nonperforming assets to total asset ratio of only 0.28%. Finally, the Board increased its semiannual dividend by 5%, marking the continuation of a long-term upward trend. So, all in all, it was a strong quarter.

In terms of specifics, net income was \$2,976,000, or \$0.49 per diluted share, for the first quarter of 2021, up 72% from \$1,733,000, or \$0.29 per diluted share, in the year-ago quarter. There were several factors that affected the bottom-line comparisons, such as no provision for loan losses in the current quarter, versus \$355,000 in the year-ago quarter, as well as security gains in the year-ago quarter. If we eliminate those items, adjusted pretax income was up roughly 58% to \$3.8 million in 2021’s first quarter. In fact, even if we also back out the \$1.1 million in net PPP revenue recognized in 2021’s first quarter, the adjusted pretax earnings were still up about 12%. Net interest income increased 19% to \$8,322,000 in 2021’s first quarter from \$7,011,000 in the year-ago quarter, mainly due to the \$1.1 million in net PPP revenue. But similar to the adjusted pretax earnings, net interest income increased even excluding the PPP net revenue, with average earning asset growth more than offsetting a lower net interest margin. Excluding security gains, noninterest income grew 16% to \$795,000 in the first quarter of 2021 from \$685,000 in the year-ago quarter. Finally, as was mentioned earlier, UB Bancorp did an excellent job

Quarterly Results (\$000s)	First Quarter	
	2020	2021
Net Income	1,733	2,976
Pretax Income	2,143	3,755
Eliminate:		
Provision	355	-
Sec. Gains	(121)	-
Adjusted Pretax Earnings	2,377	3,755
Also Excluding PPP Net Revenue	2,377	2,668

SYMBOL: UBNC

TOTAL ASSETS: \$1.1 B

HQ: GREENVILLE, NC

CONTACT:
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1ST QUARTER HIGHLIGHTS:

**NET INCOME INCREASED 72%,
WHILE PRETAX INCOME
BEFORE THE PROVISION AND
SECURITY GAINS WAS UP 58%**

DILUTED EPS: \$0.49 vs. \$0.29

**THERE WAS NO PROVISION IN
Q1 2021, VERSUS A PROVISION
OF \$355,000 IN Q1 2020**

**AVERAGE EARNING ASSET
GROWTH OFFSET LOWER
MARGINS**

**NET INTEREST INCOME GREW
19% DUE TO STRONG AVERAGE
EARNING ASSET GROWTH AND
NET PPP REVENUES**

**NONINTEREST INCOME
(EXCLUDING SECURITY
GAINS/LOSSES) GREW 16%**

FROM 3/31/20 TO 3/31/21:

**GROSS LOANS WERE UP 8%,
DEPOSITS INCREASED 28% AND
TOTAL ASSETS WERE UP 22%**

**THE BANK CONTINUES TO
ATTRACT NEW CUSTOMERS AND
OPEN NEW ACCOUNTS**

EQUITY/ASSETS: 8.72%

**SEMIANNUAL DIVIDEND
INCREASED 5% TO \$0.105 FROM
\$0.10**

**THE STOCK HAS BEEN
PERFORMING WELL THIS YEAR**

**36,250 SHARES WERE
REPURCHASED DURING THE
FIRST QUARTER OF 2021**

**NPAs/ASSETS WAS IN LINE WITH
THE NC PEER GROUP MEDIAN,
WHILE RESERVE COVERAGE
RATIOS WERE SUPERIOR**

**NPAS-TO-ASSETS: 0.28%, DOWN
FROM 0.36% AT 12/31/20**

**RESERVES-TO-LOANS: 1.56%, OR
1.87% EXCLUDING PPP LOANS**

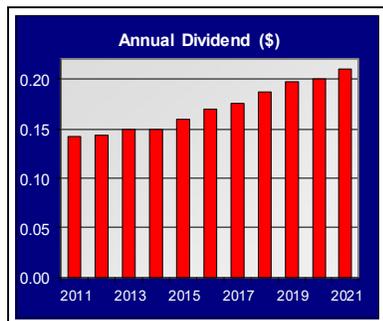
of containing costs. Noninterest expense totaled \$5,362,000 in 2021's first quarter, which was up less than 1% from \$5,319,000 in the year-ago quarter. Reflecting the strong earnings growth, profitability ratios improved sharply. ROAA in the first quarter of 2021 increased to 1.19% from 0.84% in the year-ago quarter, while ROATE grew to 12.78% from 9.53% over this period.

Deposits Increased 28% Over the past Year

Balance sheet growth remained strong in 2021's first quarter. In fact, at quarter end, the Company had more than \$1 billion in assets, even excluding the \$52 million in PPP loans remaining on the books at that time. Gross loans from March 31, 2020 to March 31, 2021 were up 8%, deposits increased 28% and total assets grew 22%. Excluding the above-mentioned PPP loans, gross loans were essentially flat relative to the year-ago level, which given paydown activity and the weaker than normal loan demand from pandemic-induced economic uncertainties, was commendable. The Bank has remained active in the second round of PPP lending and originated about \$21 million of these loans during 2021's first quarter. We would also note that the Bank continues to attract new customer relationships, both on the lending and deposit side. Noninterest bearing deposit growth has been especially strong, with total noninterest bearing deposits up \$117 million, or 53%, over the past year. From a capital standpoint, the Company is in excellent shape, with shareholders' equity of \$92 million, or 8.72% of total assets, at March 31, 2021, up from \$85 million (9.86% of total assets) at the year-ago date.

Semiannual Dividend Increased to \$0.105 Per Share, or \$0.21 Per Share Annually

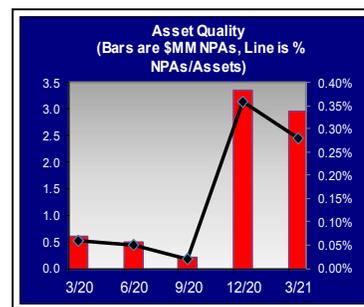
As we mentioned earlier, UB Bancorp's Board of Directors declared a semiannual cash dividend of \$0.105 per share for stockholders of record as of June 15, 2021, which is payable on June 30, 2021. This dividend represents an annual dividend of \$0.21 per share, which is a 5% increase from the previous level of \$0.20 per share. As can be seen from the adjacent table, the Company has been consistently boosting its cash dividends over the past ten years. The Company's stock price has been performing well also. On a one-year basis (from May 4, 2020 to May 4, 2021), the stock price is up 88%, versus 77% for the S&P U.S. Broad Market Bank Index, while on a year-to-date basis, the returns were 43% and 31%, respectively. We would also note that the Company repurchased 36,250



shares of UBNC common stock in the quarter.

Nonperforming Assets Declined 17% On a Linked Quarter Basis

As seen in the adjacent chart, nonperforming assets ("NPAs") increased at the end of 2020 (due to a single credit relationship), but the level dropped at the end of 2021's first quarter. NPAs (which include nonaccruing loans, loans more than 90 days past due and still accruing and OREO), totaled \$3,004,000, or 0.28% of total assets, at March 31, 2021, versus \$3,554,000, or 0.36% of total assets, at December 31, 2020, and \$606,000, or 0.07% of total assets, at March 31, 2020. The allowance for loan losses increased significantly to \$10.1 million, or 1.56% of total loans, at March 31, 2021, from \$5.3 million, or 0.89% of total loans, at the year-ago date. (Net of PPP loans, the allowance was 1.87% of loans at March 31, 2021.) UB Bancorp continues to work with its borrowers to provide COVID relief and has provided COVID-related loan payment deferrals on 347 loans with an aggregate balance of \$92.5 million through March 31, 2021. As of that date, there remain 11 loans with balances of \$5.0 million with an active payment deferral.



ADDITIONAL INFORMATION UPON REQUEST

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