

AVAILABLE ON THE WEB AT www.equityresearch.com

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
January 21, 2022

Price:	\$17.73	EPS*	2019A:	\$ 1.19	P/E	2019A:	14.9 x
52 Wk. Range:	\$11.75 - \$18.00		2020A:	\$ 0.84		2020A:	21.1 x
Div/Div Yld:	\$0.21 / 1.2%		2021A:	\$ 2.17		2021A:	8.2 x
Shrs/Mkt Cap:	5.9 mm / \$106 mm	Tangible Book Value:	\$ 14.50	Price/Tang. Book Value:	1.22 x		

* EPS are diluted. Book value per share is \$16.72.

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 \$1.2 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. 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.

Fourth Quarter and Full Year Earnings Reached All Time Records

UB Bancorp reported excellent results for both the fourth quarter and full year of 2021, with earnings for both periods reaching record levels. While much of the increase (particularly for fourth quarter earnings) resulted from a reversal in the provision for loan losses and an increase in net loan fee revenue on PPP loans, earnings even excluding these items would still have increased. Balance sheet growth was also good and was led by deposits, while loans declined modestly, reflecting rapid PPP forgiveness. Asset quality was especially good, with nonperforming assets to assets at the lowest year-end level in more than a decade. Finally, the capital position remains strong, allowing the Company to buy back 138,507 shares through its stock repurchase program over the past year.

Reported net income for the fourth quarter of 2021 was \$4,044,000, or \$0.68 per diluted share, compared to \$1,917,000, or \$0.32 per diluted share, for the fourth quarter of 2020. Part of the growth came from higher net interest income, which increased 8% to \$8,536,000 in 2021’s fourth quarter from \$7,880,000 in the year-ago quarter. Not surprisingly, margins have been under pressure over the past year, as funds have been deployed into lower yielding (relative to loans) cash and investments, in addition to loan yields being somewhat low. On a positive note, though, liquidity hasn’t been this high in many years, and as loan demand picks up, the Bank should be in a strong position to boost loan growth as well as margins. A solid increase (+17%) in average earning assets allowed net interest income to grow despite the lower margins. Net interest income also benefited from net loan fee revenue on PPP loans of \$721,000, versus \$564,000 in the year-ago quarter. As of December 31, 2021, there was roughly \$498,000 in deferred fee income on PPP loans remaining. Also affecting earnings was a large recovery in the provision for loan losses of \$1,941,000 in 2021’s fourth quarter versus a provision of \$595,000 in the year-ago quarter. The



SYMBOL: UBNC

TOTAL ASSETS: \$1.2 B

HQ: GREENVILLE, NC

CONTACT:
SCOTT C. “MAC” MCLEAN,
CFO
(252) 917-5735

4TH QUARTER HIGHLIGHTS:

DILUTED EPS: \$0.68 vs. \$0.32

THERE WAS A RECOVERY IN THE PROVISION FOR LOAN LOSSES OF \$1.9 MILLION IN Q4 2021 COMPARED TO A PROVISION OF \$0.6 MILLION IN THE YEAR-AGO QUARTER...

...AND THERE WAS PPP NET REVENUE OF \$721K FOR Q4 21 COMPARED TO \$564K FOR THE YEAR-AGO QUARTER

NET INTEREST INCOME INCREASED 8% AS A RESULT OF STRONG GROWTH IN AVERAGE EARNING ASSETS

NONINTEREST INCOME DROPPED 4%, WHILE NONINTEREST EXPENSE WAS UP 5%

recovery was mainly the result of the Bank's strong reserve position, combined with favorable current asset quality metrics. Finally, excluding nonrecurring gains and losses, noninterest income was \$815,000 for 2021's fourth quarter, compared to \$847,000 in the year-ago quarter, while noninterest expense totaled \$6,168,000 versus \$5,875,000 for the same respective periods.

FULL YEAR 2021 HIGHLIGHTS:

DILUTED EPS: \$2.17 vs. \$0.84

EARNINGS LIKEWISE BENEFITTED FROM A RECOVERY IN THE PROVISION AND HIGHER PPP RELATED INCOME BUT INCREASED 16% EVEN EXCLUDING NONRECURRING (GAINS)/LOSSES AND THESE ITEMS

For the full year 2021, net income was \$13.0 million, or \$2.17 per diluted share, as compared to \$5.1 million, or \$0.84 per diluted share, for 2020. The recovery in the provision for loan losses was \$2.4 million in 2021 versus a provision of \$5.3 million in 2020, and there was pretax net PPP fee revenue of \$3.1 million compared to \$1.5 million for the same respective periods. Pretax income before the provision, nonrecurring (gains)/losses and PPP fee income increased 16%. Net interest income was up 13%, noninterest income (excluding nonrecurring gains and losses) was up 7% and noninterest expense increased grew 4%.

(\$000s)	Full Year	
	2020	2021
Net Income	5,056	13,039
Pretax Income	6,127	16,421
Eliminate:		
Provision	5,291	(2,430)
Nonrecurring (Gains)/Losses	(560)	3
Adjusted Pretax Earnings	10,858	13,994
Net Pretax PPP Fee Revenue	1,516	3,121
Also Excluding PPP Net Revenue	9,342	10,873

Balance Sheet Growth Remains Good; Liquidity Remains High and Capital Position is Sound

Deposit momentum in the past year was quite strong. From December 31, 2020 to December 31, 2021, deposits were up 33%, with non-interest-bearing deposits accounting for roughly \$82 million of the \$251 million year-over-year growth. Although deposit growth will likely moderate in coming quarters, the infusion of funds has led to a sizable increase in cash and investments, which collectively grew 63% and accounted for 39% of assets at December 31, 2021. The importance of this is that it positions the Bank quite well from the standpoint of funding future loans. Since loans usually earn rates that are well above the yields on cash and investments, the implications of shifting a higher percentage of earning assets into loans are favorable for margins. Net loans were down 1% from December 31, 2020 to December 31, 2021, though encouragingly, core loans (excluding PPP loans) were up \$37 million (+6%) during 2021. Despite the rapid growth in assets (which were up 17%), capital ratios remain strong. Shareholders' equity totaled \$99.6 million, or 8.61% of total assets at year-end 2021. All of the Bank's regulatory ratios were well above the minimums for it to be considered "well capitalized," with a leverage ratio of 8.95%, a tier 1 capital ratio of 14.04% and a total risk-based capital ratio of 15.89% as of December 31, 2021.

DEPOSIT GROWTH REMAINS QUITE STRONG BUT IS LIKELY TO MODERATE IN FUTURE PERIODS

FROM 12/31/20 TO 12/31/21: DEPOSITS GREW 33%, WITH NON-INTEREST-BEARING DEPOSITS UP 27%

NET LOANS WERE DOWN 1%, ALTHOUGH CORE LOANS (EXCLUDING PPP LOANS) GREW 6%

EQUITY/ASSETS: 8.61%

	CAPITAL RATIOS (%)	
	Union Bank	Regulatory Minimum
Leverage	8.95	5.00
Tier 1 Capital	14.04	8.00
Total Risk Based	15.89	10.00

UB Bancorp's Asset Quality Metrics are Quite Impressive

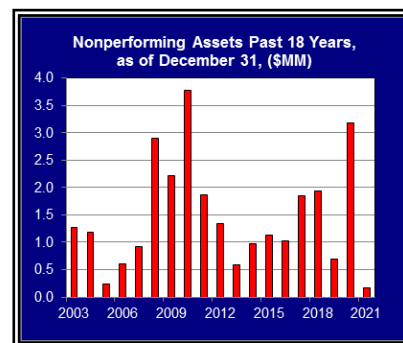
As of December 31, 2021, nonperforming assets ("NPAs," which include nonaccruing loans, loans more than 90 days past due and still accruing and OREO) were \$163,000, or 0.01% of total assets (all of which were nonaccrual loans), versus \$2,063,000, or 0.19% of total assets, at September 30, 2021, and \$3,530,000, or 0.36% of total assets, at the year-ago date. Moreover, as of the end of 2021, the Bank had just one loan relationship with a short-term active COVID-related payment deferral. Reserve coverage remained sound as well, with the allowance for loan losses totaling \$7,593,000, or 1.16% of total loans (1.24% of originated loans less PPP loans), versus \$10,113,000, or 1.53% of total loans, at the year-ago date. Not surprisingly the Company's asset quality ratios were superior to its NC peers. (The NPAs/assets median ratio for the peer group was 0.21% and the median reserves/loans ratio was 1.04%).

NPAS WERE DOWN SIGNIFICANTLY FROM PREVIOUS LEVELS

NPAS-TO-ASSETS: 0.01%

RESERVES-TO-LOANS: 1.16%, OR 1.24% OF ORIGINATED LOANS LESS PPP LOANS

UBNC'S ASSET QUALITY RATIOS WERE BETTER THAN THE NC PEER GROUP MEDIANS



ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2022 Equity Research Services, Inc. All rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned. Equity Research Services, Inc. ("ERS") is a firm involved in financial advisory, equity research, valuation and investor relations services. All reports generated by ERS for the purpose of investor relations are designated "Investor Relations Report," and ERS receives a fee from the Company for producing such reports. ERS may also act in a financial advisory role to the Company. The information contained herein has been obtained from sources we believe reliable but in no way is guaranteed by us. Furthermore, this report contains forward-looking statements and projections that are based on certain assumptions and expectations. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's documents. Any non-factual information in the report is our opinion and is subject to change without notice.