



## **Dogwood State Bank Surpasses \$1 Billion in Assets and Reports Second Quarter 2022 Results**

**Raleigh, North Carolina, July 22, 2022** – Dogwood State Bank (the “Bank”) today announced its financial results for the three and six months ended June 30, 2022.

### **Second Quarter and Year-to-Date 2022 Highlights**

- **Total assets crossed the \$1 billion threshold in Q2 2022.**
- **Net income improved to \$2.3 million in Q2 2022, compared to \$1.6 million in Q2 2021. Year-to-date net income improved to \$4.8 million, compared to \$2.6 million in the first six months of 2021.**
- **Diluted earnings per share improved to \$0.16 per share in Q2 2022, compared to \$0.12 per share in Q2 2021. Year-to-date diluted earnings per share improved to \$0.34 per share, compared to \$0.20 per share in the first six months of 2021.**
- **Total deposits increased by \$22.6 million (11% annualized) from Q1 2022 and increased by \$184.7 million (28%) from Q2 2021.**
- **The mix of non-interest deposits to total deposits improved to 39% as of June 30, 2022, compared to 33% as of both March 31, 2022 and June 30, 2021.**
- **Total loans, excluding PPP loans, increased by \$64.2 million (37% annualized) from Q1 2022 and increased by \$282.9 million (60%) from Q2 2021.**
- **In February 2022, the Bank closed a \$12.0 million private placement offering of common stock at \$18 per share.**

“I am proud to share that in just three years following the recapitalization, Dogwood State Bank has grown past the \$1 billion total asset threshold,” commented Steve Jones, Chief Executive Officer. “This significant milestone represents the tremendous dedication and hard work of all our teammates and reflects the many customer relationships we have built across our North Carolina markets.”

### **Net Interest Income**

Net interest income was \$8.5 million for the three months ended June 30, 2022, an increase from \$6.1 million in the second quarter of 2021. The increase was due to significant growth in interest-earning assets over the past year along with a higher net interest margin.

Total average interest-earning assets increased to \$937.1 million in the second quarter of 2022 from \$727.4 million in the second quarter of 2021. Average loans, excluding PPP loans, increased by \$258.5 million. Average PPP loan balances decreased by \$127.3 million due to forgiveness payments. Average investment securities balances and interest-earning cash balances increased by \$48.6 million and \$30.0 million, respectively.

Net interest margin increased to 3.65% in the second quarter of 2022, compared to 3.34% in the second quarter of 2021. Net interest margin was benefited by an increase in interest-earning asset yields along with a decrease in cost of funds. The Federal Reserve's Board of Governors increased the federal funds rate by an aggregate 1.25% in the second quarter of 2022 and by 1.50% in the first six months of 2022. Given the Bank's current balance sheet profile and interest rate position, higher market interest rates will tend to improve the net interest margin over time. Excluding the impact of PPP, net interest margin increased to 3.55% (non-GAAP) in the second quarter of 2022, compared to 3.38% (non-GAAP) in the second quarter of 2021.

#### Provision for Loan Losses and Asset Quality

Provision for loan losses was \$583 thousand for the three months ended June 30, 2022, a decrease from \$700 thousand in the second quarter of 2021. The decrease in provision expense reflects less uncertainty regarding the coronavirus pandemic, including risk rating upgrades to certain loans initially impacted by the pandemic. As a result, the Bank's allowance for loan losses to total loans, excluding PPP loans, declined to 1.01% as of June 30, 2022, compared to 1.12% as of both December 31, 2021 and June 30, 2021.

Asset quality metrics have remained strong with nonperforming loans declining to 0.09% of total loans as of June 30, 2022, compared to 0.10% as of December 31, 2021 and 0.16% as of June 30, 2021. Annualized net charge offs were 0.01% of average loans in the second quarter of 2022, compared to 0.10% in the second quarter of 2021.

#### Non-Interest Income

Non-interest income was \$2.9 million for the three months ended June 30, 2022, a decrease from \$3.7 million in the second quarter of 2021. Most of this decrease was related to a \$949 thousand decline in government guaranteed lending ("GGL") income. GGL lending income declined due to lower secondary market premiums on sales of guaranteed U.S. Small Business Administration ("SBA") 7(a) loans and due to a \$644 thousand impairment in the value of the Bank's SBA servicing asset in the second quarter of 2022. The GGL lending income decline was partially offset by an increase in the balance of guaranteed loans sold in the quarter.

Loan production under the SBA's 7(a) loan program totaled \$38.0 million in the second quarter of 2022, compared to \$44.5 million in the second quarter of 2021. Guaranteed balances of SBA loans sold increased to \$31.9 million in the second quarter of 2022, compared to \$23.2 million in the second quarter of 2021. The weighted average net premium on SBA loans sold in the second quarter of 2022 was 8.99%, which was a decrease from 13.28% in the second quarter of 2021.

#### Non-Interest Expense

Non-interest expense was \$7.9 million for the three months ended June 30, 2022, an increase from \$7.0 million in the second quarter of 2021. Most of the increase was related to compensation and benefits, which increased by \$659 thousand. Significant investments have been made in human capital across the Bank over the past couple of years to support its rapid growth, which resulted in increased expenses in this area.

## Income Taxes

Income tax expense was \$655 thousand for the three months ended June 30, 2022, compared to \$468 thousand in the second quarter of 2021. The effective tax rate was 22.22% in the second quarter of 2022, which was relatively consistent with an effective tax rate of 22.31% in the second quarter of 2021.

## Capital Raise

In February 2022, the Bank completed a \$12.0 million capital raise, which consisted of a private placement offering of 664,316 shares of common stock at \$18.00 per share. Ward & Smith, P.A. served as legal counsel to the Bank for the offering. The Bank did not use a placement agent. This growth capital is intended to accelerate the buildout of the Bank's statewide, North Carolina banking franchise.

## **About Dogwood State Bank**

Dogwood State Bank is a North Carolina state-chartered community bank headquartered in Raleigh, North Carolina, with approximately \$1.0 billion in total assets. The Bank provides a wide range of banking products and services through its digital offerings and branch offices in Charlotte, Greenville, Morehead City, Raleigh, Sanford, and Wilmington, North Carolina. The Bank also specializes in providing lending services to small businesses through its Dogwood State Bank Small Business Lending Division. For more information, visit [DogwoodStateBank.com](http://DogwoodStateBank.com).

## **Disclosures About Forward Looking Statements**

All statements in this Shareholder Update that are not historical are forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended. Forward-looking statements can be identified by words such as “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “should,” “will” and similar references to future periods. Such forward-looking statements are subject to factors that could cause actual results to differ materially from those discussed. Dogwood State Bank wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. These statements are not guarantees of future performance. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. We do not undertake any obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

## Quarterly Financial Tables

### Dogwood State Bank Income Statement

	Quarter Ended					Six Months Ended	
	Jun 30 2022	Mar 31 2022	Dec 31 2021	Sept 30 2021	Jun 30 2021	Jun 30 2022	Jun 30 2021
(Dollars in thousands, except per share data)							
<b>Net interest income</b>	\$ 8,528	\$ 7,559	\$ 7,244	\$ 6,850	\$ 6,058	\$ 16,087	\$ 11,844
Provision for loan losses	583	438	870	536	700	1,021	1,462
Net interest income after provision	<u>7,945</u>	<u>7,121</u>	<u>6,374</u>	<u>6,314</u>	<u>5,358</u>	<u>15,066</u>	<u>10,382</u>
<b>Non-interest income</b>							
Government-guaranteed lending	2,337	3,608	3,787	4,004	3,286	5,945	5,487
Service charges and debit card income	325	316	267	218	211	641	394
Bank-owned life insurance	178	160	179	168	118	338	233
Securities gains (losses), net	(5)	23	(3)	(5)	15	18	12
Other	60	(276)	58	62	89	(216)	145
Total non-interest income	<u>2,895</u>	<u>3,831</u>	<u>4,288</u>	<u>4,447</u>	<u>3,719</u>	<u>6,726</u>	<u>6,271</u>
<b>Non-interest expense</b>							
Compensation and benefits	5,479	5,333	11,302	5,355	4,820	10,812	9,172
Occupancy and equipment	593	574	550	509	505	1,167	951
Data processing	303	281	281	248	249	584	492
Amortization of other intangible assets	58	64	71	77	84	122	175
Other	1,459	1,476	1,356	1,342	1,321	2,935	2,520
Total non-interest expense	<u>7,892</u>	<u>7,728</u>	<u>13,560</u>	<u>7,531</u>	<u>6,979</u>	<u>15,620</u>	<u>13,310</u>
Net income (loss) before income taxes	<u>2,948</u>	<u>3,224</u>	<u>(2,898)</u>	<u>3,230</u>	<u>2,098</u>	<u>6,172</u>	<u>3,343</u>
Income tax expense (benefit)	655	719	(2,167)	712	468	1,374	737
Net income (loss)	<u>\$ 2,293</u>	<u>\$ 2,505</u>	<u>\$ (731)</u>	<u>\$ 2,518</u>	<u>\$ 1,630</u>	<u>\$ 4,798</u>	<u>\$ 2,606</u>
<b>Per Share Data:</b>							
Earnings per share - basic	\$ 0.17	\$ 0.19	\$ (0.05)	\$ 0.19	\$ 0.12	\$ 0.35	\$ 0.21
Earnings per share - diluted	<u>\$ 0.16</u>	<u>\$ 0.18</u>	<u>\$ (0.05)</u>	<u>\$ 0.18</u>	<u>\$ 0.12</u>	<u>\$ 0.34</u>	<u>\$ 0.20</u>
<b>Performance Ratios:</b>							
Return on average assets	0.92%	1.08%	-0.32%	1.19%	0.85%	1.00%	0.72%
Return on average equity	6.95%	8.06%	-2.39%	8.36%	5.58%	7.49%	4.85%
Return on tangible common equity	7.36%	8.55%	-2.54%	8.92%	5.96%	7.94%	5.22%
Net interest margin	3.65%	3.48%	3.45%	3.45%	3.34%	3.57%	3.46%
Efficiency ratio	69.09%	67.85%	117.59%	66.66%	71.38%	68.47%	73.48%

**Dogwood State Bank**

**Balance Sheet**

	Ending Balance as of				
	Jun 30 2022	Mar 31 2022	Dec 31 2021	Sept 30 2021	Jun 30 2021
(Dollars in thousands, except per share data)					
<b>Assets</b>					
Cash and due from banks	\$ 1,956	\$ 1,831	\$ 2,705	\$ 1,835	\$ 2,005
Interest-earning deposits with banks	55,871	65,149	92,402	111,651	90,302
Investment securities	116,946	114,246	111,513	98,970	73,038
Loans held for sale	10,404	11,043	9,331	16,987	2,851
PPP loans	15,368	31,598	61,327	89,010	120,447
Loans, excluding PPP loans	757,829	693,632	591,679	511,963	474,945
Less allowance for loan losses	(7,631)	(7,062)	(6,625)	(5,871)	(5,335)
Loans, net	750,198	686,570	585,054	506,092	469,610
Bank-owned life insurance	26,349	26,171	26,268	26,307	18,639
Premises and equipment, net	15,801	16,162	16,360	14,652	15,509
Servicing assets	2,908	2,943	2,390	1,791	1,417
Goodwill	7,016	7,016	7,016	7,016	7,016
Other intangible assets, net	221	279	343	414	491
Other assets	11,573	11,315	10,380	6,549	6,609
Total assets	<b>\$ 1,014,611</b>	<b>\$ 974,323</b>	<b>\$ 925,089</b>	<b>\$ 881,274</b>	<b>\$ 807,934</b>
<b>Liabilities and Shareholders' Equity</b>					
Deposits:					
Noninterest-bearing	\$ 332,258	\$ 276,270	\$ 236,162	\$ 226,463	\$ 217,839
Interest-bearing	519,802	553,182	551,551	516,348	449,501
Total deposits	852,060	829,452	787,713	742,811	667,340
FHLB advances	15,000	-	4,000	4,000	10,000
Lease obligations	8,352	8,549	8,584	6,845	6,967
Other liabilities	6,771	5,378	5,835	6,631	5,443
Total liabilities	882,183	843,379	806,132	760,287	689,750
Total shareholders' equity	132,428	130,944	118,957	120,987	118,184
Total liabilities and shareholders' equity	<b>\$ 1,014,611</b>	<b>\$ 974,323</b>	<b>\$ 925,089</b>	<b>\$ 881,274</b>	<b>\$ 807,934</b>
<b>Per Share Information:</b>					
Shares outstanding	13,796,916	13,796,916	13,122,600	13,461,385	13,441,385
Book value per share	\$ 9.60	\$ 9.49	\$ 9.07	\$ 8.99	\$ 8.79
Tangible book value per share (non-GAAP)	\$ 9.07	\$ 8.96	\$ 8.50	\$ 8.44	\$ 8.23
<b>Capital Ratios:</b>					
Equity to assets	13.05%	13.44%	12.86%	13.73%	14.63%
Tangible common equity to tangible assets (non-GAAP)	12.43%	12.79%	12.16%	13.00%	13.83%
Tier 1 leverage	12.89%	13.37%	12.39%	13.50%	14.57%
Common equity Tier 1 capital	15.35%	16.28%	16.68%	19.56%	21.05%
Tier 1 capital	15.35%	16.28%	16.68%	19.56%	21.05%
Total capital	16.29%	17.21%	17.70%	20.60%	22.09%
<b>Asset Quality:</b>					
Non-accrual loans	\$ 493	\$ 555	\$ 565	\$ 707	\$ 743
Loans 90 days or more past due and accruing	202	299	60	26	26
Other real estate owned	-	-	-	-	-
Total nonperforming assets	\$ 695	\$ 854	\$ 625	\$ 733	\$ 769
Nonperforming loans to loans	0.09%	0.12%	0.11%	0.14%	0.16%
Nonperforming assets to total assets	0.07%	0.09%	0.07%	0.08%	0.10%
Nonperforming assets to loans and other real estate owned	0.09%	0.12%	0.11%	0.14%	0.16%
Past due loans to loans (excludes non-accrual loans)	0.07%	0.13%	0.30%	0.56%	0.14%
Allowance for loan losses to loans	1.01%	1.02%	1.12%	1.15%	1.12%
Allowance for loan losses to nonperforming loans	1097.99%	826.93%	1060.00%	800.95%	693.76%

**Dogwood State Bank**  
**Net Interest Margin Analysis**

	Quarter Ended								
	June 30, 2022			March 31, 2022			June 30, 2021		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<i>(Dollars in thousands)</i>									
<b>Interest-Earning Assets:</b>									
Loans, excluding PPP loans	\$ 714,186	\$ 7,731	4.34%	\$ 629,416	\$ 6,685	4.31%	\$ 455,664	\$ 5,052	4.45%
PPP loans	23,977	440	7.36%	47,808	769	6.52%	151,311	1,215	3.22%
Investment securities	116,005	675	2.33%	113,759	490	1.75%	67,414	226	1.34%
Interest-earning deposits with banks	82,956	160	0.77%	90,825	41	0.18%	52,961	12	0.09%
Total interest-earning assets	937,124	9,006	3.85%	881,808	7,985	3.67%	727,350	6,505	3.59%
Non interest-earning assets	58,405			58,758			44,294		
Total assets	<u>\$ 995,529</u>			<u>\$ 940,566</u>			<u>\$ 771,644</u>		
<b>Interest-Bearing Liabilities:</b>									
Interest-bearing demand	\$ 112,970	\$ 39	0.14%	\$ 107,109	\$ 37	0.14%	\$ 64,180	\$ 25	0.16%
Savings and money market	323,713	247	0.31%	327,517	226	0.28%	241,128	222	0.37%
Time	109,713	141	0.52%	104,052	105	0.41%	98,143	121	0.49%
Total interest-bearing deposits	546,396	427	0.31%	538,678	368	0.28%	403,451	368	0.37%
FHLB advances	165	1	2.43%	1,333	6	1.83%	12,593	26	0.83%
PPPLF borrowings	-	-	0.00%	-	-	0.00%	10,945	9	0.33%
Lease obligations	8,447	50	2.37%	8,543	52	2.47%	7,031	44	2.51%
Total interest-bearing liabilities	555,008	478	0.35%	548,554	426	0.31%	434,020	447	0.41%
Non-interest bearing deposits	302,376			260,352			215,610		
Other liabilities	5,854			5,570			4,851		
Shareholders' equity	132,291			126,090			117,163		
Total liabilities and shareholders' equity	<u>\$ 995,529</u>			<u>\$ 940,566</u>			<u>\$ 771,644</u>		
Net interest income and interest rate spread		<u>\$ 8,528</u>	<u>3.51%</u>		<u>\$ 7,559</u>	<u>3.36%</u>		<u>\$ 6,058</u>	<u>3.17%</u>
Net interest margin			<u>3.65%</u>			<u>3.48%</u>			<u>3.34%</u>
Cost of funds			0.22%			0.21%			0.28%

	Six Months Ended					
	June 30, 2022			June 30, 2021		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<i>(Dollars in thousands)</i>						
<b>Interest-Earning Assets:</b>						
Loans, excluding PPP loans	\$ 672,036	\$ 14,416	4.33%	\$ 431,153	\$ 9,608	4.49%
PPP loans	35,826	1,209	6.81%	146,618	2,674	3.68%
Investment securities	114,888	1,165	2.04%	62,678	480	1.54%
Interest-earning deposits with banks	86,869	201	0.47%	48,904	22	0.09%
Total interest-earning assets	909,619	16,991	3.77%	689,353	12,784	3.74%
Non interest-earning assets	58,578			44,012		
Total assets	<u>\$ 968,197</u>			<u>\$ 733,365</u>		
<b>Interest-Bearing Liabilities:</b>						
Interest-bearing demand	\$ 110,056	\$ 76	0.14%	\$ 54,353	\$ 43	0.16%
Savings and money market	325,605	473	0.29%	218,787	423	0.39%
Time	106,898	246	0.46%	94,930	278	0.59%
Total interest-bearing deposits	542,559	795	0.30%	368,070	744	0.41%
FHLB advances	746	7	1.89%	13,948	56	0.81%
PPPLF borrowings	-	-	0.00%	30,748	53	0.35%
Lease obligation	8,495	102	2.42%	6,745	87	2.60%
Total interest-bearing liabilities	551,800	904	0.33%	419,511	940	0.45%
Non-interest bearing deposits	281,480			200,962		
Other liabilities	5,712			4,337		
Shareholders' equity	129,205			108,555		
Total liabilities and shareholders' equity	<u>\$ 968,197</u>			<u>\$ 733,365</u>		
Net interest income and interest rate spread		<u>\$ 16,087</u>	<u>3.44%</u>		<u>\$ 11,844</u>	<u>3.29%</u>
Net interest margin			<u>3.57%</u>			<u>3.46%</u>
Cost of funds			0.22%			0.31%