



Dogwood State Bank Reports First Quarter 2024 Results

Raleigh, North Carolina, April 24, 2024 – Dogwood State Bank (the “Bank”) today announced its financial results for the three months ended March 31, 2024.

First Quarter 2024 Highlights

- Net income was \$1.8 million, or \$0.12 per diluted share, in Q1 2024, which was significantly impacted by merger and acquisition expenses of \$958 thousand related to the Bank’s pending acquisition of Community First Bancorporation (“Community First”) and its wholly-owned bank subsidiary, Community First Bank, Inc.
- Adjusted net income (non-GAAP) was \$2.6 million, or \$0.17 per diluted share, in Q1 2024, compared to \$2.8 million, or \$0.20 per diluted share, in Q1 2023
- Adjusted pre-tax, pre-provision net revenue (non-GAAP) was \$4.3 million in Q1 2024, an increase from \$4.2 million in Q1 2023
- Loans held for investment grew by \$53.6 million in Q1 2024 and by \$241.0 million, or 27%, over the past 12 months
- Deposits grew by \$22.3 million in Q1 2024 and by \$274.0 million, or 29%, over the past 12 months
- Tangible book value per share (non-GAAP) grew to \$10.82 at March 31, 2024, which was an increase of \$0.11 per share in Q1 2024 and \$0.69 per share over the past 12 months

“The first quarter results reflect our commitment to growth, highlighted by robust earnings and our strategic merger announcement,” commented Steve Jones, Chief Executive Officer. “This announcement positions us for even greater success ahead as we look forward to welcoming Community First employees and customers over the coming months.”

Merger with Community First

On January 31, 2024, the Bank entered into a merger agreement to acquire Community First and its wholly-owned bank subsidiary, Community First Bank, Inc. In Q1 2024, the Bank incurred pre-tax merger and acquisition expenses of \$958 thousand.

Earnings Performance

Net Interest Income

Net interest income was \$11.3 million in Q1 2024, an increase from \$10.1 million in Q1 2023. The increase was due to significant growth in interest-earning assets over the past year, partially offset by a lower net interest margin.

Total average interest-earning assets increased to \$1.34 billion in Q1 2024 from \$1.07 billion in Q1 2023. Average loans increased by \$225.1 million. Average investment securities balances increased by \$8.9 million, and average interest-earning cash balances increased by \$27.0 million.

Net interest margin decreased to 3.41% in Q1 2024, compared to 3.78% in Q1 2023. Net interest margin has been negatively impacted by funding costs rising at a faster rate than interest-earning asset yields. In an effort to lower the rate of inflation in the U.S. economy, the Federal Open Market Committee (“FOMC”) increased the federal funds target rate by an aggregate 5.25% in 2022 and 2023.

Provision for Credit Losses and Asset Quality

Provision for credit losses was \$921 thousand in Q1 2024, an increase from \$738 thousand in Q1 2023. The increase in provision expense was partially due to a \$71 thousand increase in net charge-offs along with stronger net loan growth over the same periods. The Bank’s allowance for credit losses to total loans decreased to 1.07% as of March 31, 2024, compared to 1.09% as of December 31, 2023 and 1.13% as of March 31, 2023.

Nonperforming loans were 0.17% of total loans as of March 31, 2024, compared to 0.15% as of December 31, 2023, and 0.22% as of March 31, 2023. Annualized net charge offs increased slightly to 0.10% of average loans in Q1 2024, compared to 0.09% in Q1 2023. Substantially all charge offs recognized in Q1 2024 were related to unguaranteed portions of U.S. Small Business Administration (“SBA”) loans.

Non-Interest Income

Non-interest income was \$2.9 million in Q1 2024, an increase from \$2.6 million in Q1 2023. Most of this increase was related to SBA lending income. SBA lending income rose by \$131 thousand due to higher secondary market premiums on sales of guaranteed loans, partially offset by a decrease in the volume of guaranteed SBA 7(a) loans sold in the quarter.

The weighted average net premium on SBA loans sold in Q1 2024 was 8.81%, which was an increase from 7.85% in Q1 2023. Guaranteed balances of SBA loans sold totaled \$20.8 million in Q1 2024, which was a decline from \$21.9 million in Q1 2023. Loan production under the SBA’s 7(a) loan program totaled \$33.5 million in Q1 2024, compared to \$31.0 million in Q1 2023.

Non-Interest Expense

Non-interest expense was \$10.8 million in Q1 2024, an increase from \$8.4 million in Q1 2023. The largest contributor to this increase was merger and acquisition expenses of \$958 thousand incurred in Q1 2024 related to the Bank’s pending acquisition of Community First. Additionally, compensation and benefits increased by \$847 thousand. Significant investments have been made in human capital across the Bank to support its growth, including recent growth into the Piedmont-Triad NC market.

Income Taxes

Income tax expense was \$588 thousand in Q1 2024, compared to \$707 thousand in Q1 2023. The effective tax rate was 24.24% in Q1 2024, which was higher than an effective tax rate of 20.18% in Q1 2023. The higher effective tax rate was partially due to tax benefits in Q1 2024 related to vesting of certain restricted stock grants.

About Dogwood State Bank

Dogwood State Bank is a North Carolina state-chartered community bank headquartered in Raleigh, North Carolina, with approximately \$1.45 billion in total assets. The Bank provides a wide range of banking products and services through its digital offerings and branch offices in Charlotte, Fayetteville, 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.

Forward-Looking Statements

Statements made in this press release, other than those concerning historical financial information, may be considered forward-looking statements, which speak only as of the date of this press release and are based on current expectations and involve a number of assumptions. 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. Our ability to predict results, or the actual effect of future plans or strategies, is inherently uncertain. Factors that could have a material effect on the Bank’s operations and future prospects include but are not limited to: the expected growth opportunities or cost savings from the proposed merger (the “merger”) of Community First and Community First Bank, Inc. with and into the Bank may not be fully realized or may take longer to realize than expected; the businesses of the Bank and Community First may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; deposit attrition, operating costs, customer losses and business disruption prior to and following the merger, including adverse effects on relationships with employees and customers, may be greater than expected; the regulatory and shareholder approvals required for the merger may not be obtained; changes in interest rates, general economic and business conditions; legislative/regulatory changes; the monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System; the quality and composition of the Bank’s loan and securities portfolios; demand for loan products and other financial services in our market areas; inflation; deposit flows; competition; our implementation of new technologies and ability to develop and maintain secure and reliable electronic systems; changes in the securities markets; and changes in accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

This press release contains financial information determined by methods other than in accordance with United States generally accepted accounting principles (“GAAP”). The Bank uses the non-GAAP financial measures discussed herein in its analysis of the Bank’s performance. The Bank’s management believes that these non-GAAP financial measures enhance comparability of results of operations with prior periods by excluding the impact of items or events that may obscure trends in the Bank’s performance. These disclosures should not be viewed as a substitute for financial results in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures which may be presented by other companies. Please refer to the Non-GAAP Reconciliation table for a reconciliation of these non-GAAP measures to the most directly comparable GAAP measure.

Quarterly Financial Tables

Dogwood State Bank

Income Statements

	Quarter Ended				
	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31
	2024	2023	2023	2023	2023
(Dollars in thousands, except per share data)					
Net interest income	\$ 11,312	\$ 11,900	\$ 11,005	\$ 9,853	\$ 10,026
Provision for credit losses	921	1,638	1,063	1,725	738
Net interest income after provision	10,391	10,262	9,942	8,128	9,288
Non-interest income					
SBA lending	2,197	1,838	2,362	2,155	2,066
Service charges and debit card income	351	343	345	358	353
Bank-owned life insurance	211	201	187	183	180
Securities gains (losses), net	6	5	94	(13)	(9)
Gain on payoff of FHLB advances	-	1,230	-	-	-
Other	85	93	49	69	40
Total non-interest income	2,850	3,710	3,037	2,752	2,630
Non-interest expense					
Compensation and benefits	6,506	6,910	6,003	5,567	5,659
Occupancy and equipment	719	634	590	591	588
Software	346	343	346	359	327
Loan related costs	290	254	305	174	181
Data processing	261	245	263	247	255
FDIC insurance	240	239	222	169	104
Professional fees	225	242	250	236	243
Merger and acquisition expenses	958	14	-	-	-
Amortization of other intangible assets	11	18	24	31	38
Other	1,259	1,274	1,137	976	1,019
Total non-interest expense	10,815	10,173	9,140	8,350	8,414
Net income before income taxes	2,426	3,799	3,839	2,530	3,504
Income tax expense	588	865	902	550	707
Net income	\$ 1,838	\$ 2,934	\$ 2,937	\$ 1,980	\$ 2,797
Pre-Tax, Pre-Provision Net Revenue (PPNR) ⁽¹⁾	\$ 3,347	\$ 5,437	\$ 4,902	\$ 4,255	\$ 4,242
Adjusted PPNR ⁽¹⁾	4,305	5,451	4,902	4,255	4,242
Per Share Data:					
Earnings per share (EPS) - basic	\$ 0.13	\$ 0.20	\$ 0.20	\$ 0.14	\$ 0.21
Adjusted EPS - basic ⁽¹⁾	0.18	0.21	0.20	0.14	0.21
Earnings per share - diluted	0.12	0.20	0.20	0.13	0.20
Adjusted EPS - diluted ⁽¹⁾	0.17	0.20	0.20	0.13	0.20
Performance Ratios:					
Return on average assets (ROA)	0.53%	0.80%	0.87%	0.67%	1.00%
Adjusted ROA ⁽¹⁾	0.74%	0.81%	0.87%	0.67%	1.00%
Return on average equity (ROE)	4.44%	7.15%	7.32%	5.05%	8.08%
Adjusted ROE ⁽¹⁾	6.22%	7.18%	7.32%	5.05%	8.08%
Return on tangible common equity (ROTCE) ⁽¹⁾	4.63%	7.48%	7.66%	5.29%	8.51%
Adjusted ROTCE ⁽¹⁾	6.50%	7.51%	7.66%	5.29%	8.51%
Net interest margin	3.41%	3.42%	3.43%	3.50%	3.78%
Efficiency ratio	76.37%	65.17%	65.09%	66.24%	66.48%
Adjusted efficiency ratio ⁽¹⁾	69.60%	65.08%	65.09%	66.24%	66.48%

⁽¹⁾ Denotes a non-GAAP measure. Refer to the non-GAAP reconciliation subsequently included in these materials for a reconciliation to the most directly comparable GAAP measure. "Adjusted" items exclude the impact of merger and acquisition expenses.

Dogwood State Bank
Balance Sheets

	Ending Balance				
	Mar 31 2024	Dec 31 2023	Sept 30 2023	Jun 30 2023	Mar 31 2023
<i>(In thousands, except per share data)</i>					
Assets					
Cash and due from banks	\$ 2,353	\$ 5,191	\$ 5,261	\$ 5,471	\$ 5,257
Interest-earning deposits with banks	91,365	123,474	220,206	105,237	71,310
Total cash and cash equivalents	<u>93,718</u>	<u>128,665</u>	<u>225,467</u>	<u>110,708</u>	<u>76,567</u>
Investment securities available for sale	55,984	49,244	40,887	39,565	40,810
Investment securities held to maturity	76,119	77,557	78,614	79,759	80,746
Marketable equity securities	336	329	324	230	243
Total investment securities	<u>132,439</u>	<u>127,130</u>	<u>119,825</u>	<u>119,554</u>	<u>121,799</u>
Loans held for sale	8,146	15,274	20,329	13,884	9,511
Loans	1,148,899	1,095,339	1,036,636	996,193	907,851
Less allowance for credit losses	<u>(12,344)</u>	<u>(11,943)</u>	<u>(11,385)</u>	<u>(11,204)</u>	<u>(10,235)</u>
Loans, net	<u>1,136,555</u>	<u>1,083,396</u>	<u>1,025,251</u>	<u>984,989</u>	<u>897,616</u>
Bank-owned life insurance	27,669	27,458	27,257	27,069	26,887
Premises and equipment, net	18,838	18,707	19,522	18,648	17,515
SBA servicing asset	4,373	3,967	3,913	3,879	3,603
Goodwill	7,016	7,016	7,016	7,016	7,016
Other intangible assets, net	4	15	33	58	89
Other assets	19,750	20,060	19,845	16,714	14,511
Total assets	<u>\$ 1,448,508</u>	<u>\$ 1,431,688</u>	<u>\$ 1,468,458</u>	<u>\$ 1,302,519</u>	<u>\$ 1,175,114</u>
Liabilities and Shareholders' Equity					
Deposits:					
Noninterest-bearing	\$ 302,705	\$ 291,910	\$ 390,018	\$ 308,418	\$ 283,469
Interest-bearing	913,914	902,369	844,914	757,903	659,062
Total deposits	<u>1,216,619</u>	<u>1,194,279</u>	<u>1,234,932</u>	<u>1,066,321</u>	<u>942,531</u>
FHLB advances	40,000	50,000	50,000	60,000	60,000
Lease obligations	10,959	11,187	11,416	10,602	9,538
Other liabilities	11,459	11,719	12,012	7,937	7,216
Total liabilities	<u>1,279,037</u>	<u>1,267,185</u>	<u>1,308,360</u>	<u>1,144,860</u>	<u>1,019,285</u>
Shareholders' equity					
Common stock (\$1 par value)	15,020	14,710	14,695	14,695	14,678
Additional paid-in capital	135,077	132,373	132,113	131,859	131,562
Retained earnings	24,244	22,406	19,473	16,536	14,556
Accumulated other comprehensive loss	<u>(4,870)</u>	<u>(4,986)</u>	<u>(6,183)</u>	<u>(5,431)</u>	<u>(4,967)</u>
Total shareholders' equity	<u>169,471</u>	<u>164,503</u>	<u>160,098</u>	<u>157,659</u>	<u>155,829</u>
Total liabilities and shareholders' equity	<u>\$ 1,448,508</u>	<u>\$ 1,431,688</u>	<u>\$ 1,468,458</u>	<u>\$ 1,302,519</u>	<u>\$ 1,175,114</u>
Per Share Information:					
Shares outstanding	15,020	14,710	14,695	14,695	14,678
Book value per share	\$ 11.28	\$ 11.18	\$ 10.89	\$ 10.73	\$ 10.62
Tangible book value per share (non-GAAP)	\$ 10.82	\$ 10.71	\$ 10.42	\$ 10.25	\$ 10.13
Capital Ratios:					
Tier 1 leverage	11.75%	11.05%	11.72%	12.92%	13.38%
Common equity Tier 1 capital	13.12%	13.47%	13.97%	14.28%	15.52%
Tier 1 risk-based capital	13.12%	13.47%	13.97%	14.28%	15.52%
Total risk-based capital	14.29%	14.65%	15.08%	15.41%	16.67%
Tangible common equity (non-GAAP)	11.27%	11.05%	10.47%	11.62%	12.73%

Dogwood State Bank
Asset Quality Measures

	Quarter Ended				
	Mar 31 2024	Dec 31 2023	Sept 30 2023	Jun 30 2023	Mar 31 2023
<i>(Dollars in thousands)</i>					
Nonperforming Assets:					
Non-accrual loans	\$ 1,938	\$ 1,670	\$ 1,684	\$ 1,918	\$ 1,025
Loans 90 days or more past due and accruing	-	-	-	-	989
Other real estate owned	-	-	-	-	-
Total nonperforming assets	\$ 1,938	\$ 1,670	\$ 1,684	\$ 1,918	\$ 2,014
Asset Quality Ratios:					
Nonperforming loans/loans	0.17%	0.15%	0.16%	0.19%	0.22%
Nonperforming assets/total assets	0.13%	0.12%	0.11%	0.15%	0.17%
Nonperforming assets/loans and other real estate owned	0.17%	0.15%	0.16%	0.19%	0.22%
Loans 30 days or more past due/loans (excludes non-accruals)	0.41%	0.23%	0.05%	0.04%	0.25%
Allowance for Credit Losses (ACL):					
ACL on Loans:					
Balance, beginning of period	\$ 11,943	\$ 11,385	\$ 11,204	\$ 10,235	\$ 8,728
CECL adjustment	-	-	-	-	1,156
Loans charged off	(288)	(81)	(792)	(787)	(218)
Recoveries of loans previously charged off	9	40	29	7	10
Net loans charged off	(279)	(41)	(763)	(780)	(208)
Provision for credit losses	680	599	944	1,749	559
Balance, end of period	\$ 12,344	\$ 11,943	\$ 11,385	\$ 11,204	\$ 10,235
ACL on Off-Balance Sheet Credit Exposures:					
Balance, beginning of period	\$ 2,060	\$ 1,020	\$ 901	\$ 925	\$ 162
CECL adjustment	-	-	-	-	583
Provision for credit losses	241	1,040	119	(24)	180
Balance, end of period	\$ 2,301	\$ 2,060	\$ 1,020	\$ 901	\$ 925
Allowance for Credit Losses Ratios:					
Allowance for credit losses/loans	1.07%	1.09%	1.10%	1.12%	1.13%
Allowance for credit losses/nonperforming loans	636.95%	715.15%	676.07%	584.15%	508.19%
Net charge-offs/average loans (annualized)	0.10%	0.02%	0.30%	0.33%	0.09%

Dogwood State Bank
Net Interest Margin Analysis

(Dollars in thousands)	Quarter Ended								
	March 31, 2024			December 31, 2023			March 31, 2023		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Interest-Earning Assets:									
Loans	\$ 1,125,595	\$ 18,116	6.47%	\$ 1,069,322	\$ 16,929	6.28%	\$ 900,528	\$ 12,736	5.74%
Investment securities	131,250	1,029	3.15%	123,736	936	3.00%	122,319	820	2.72%
Interest-earning deposits with banks	78,807	975	4.98%	188,078	2,500	5.27%	51,836	533	4.17%
Total interest-earning assets	1,335,652	20,120	6.06%	1,381,136	20,365	5.85%	1,074,683	14,089	5.32%
Non interest-earning assets	66,568			67,793			61,279		
Total assets	<u>\$ 1,402,220</u>			<u>\$ 1,448,929</u>			<u>\$ 1,135,962</u>		
Interest-Bearing Liabilities:									
Interest-bearing demand	\$ 124,309	\$ 293	0.95%	\$ 136,211	\$ 393	1.14%	\$ 108,782	\$ 177	0.66%
Savings and money market	601,319	6,110	4.09%	564,607	5,751	4.04%	359,979	2,112	2.38%
Time	170,964	1,967	4.63%	177,134	1,962	4.39%	189,574	1,466	3.14%
Total interest-bearing deposits	896,592	8,370	3.75%	877,952	8,106	3.66%	658,335	3,755	2.31%
FHLB advances	27,253	368	5.43%	28,424	292	4.08%	22,000	256	4.72%
Lease obligations	11,086	70	2.54%	11,316	67	2.35%	9,642	52	2.19%
Total interest-bearing liabilities	934,931	8,808	3.79%	917,692	8,465	3.66%	689,977	4,063	2.39%
Non-interest bearing deposits	288,518			357,065			298,618		
Other liabilities	12,237			11,469			6,920		
Shareholders' equity	166,534			162,703			140,447		
Total liabilities and shareholders' equity	<u>\$ 1,402,220</u>			<u>\$ 1,448,929</u>			<u>\$ 1,135,962</u>		
Net interest income and interest rate spread		<u>\$ 11,312</u>	2.27%		<u>\$ 11,900</u>	2.19%		<u>\$ 10,026</u>	2.93%
Net interest margin			<u>3.41%</u>			<u>3.42%</u>			<u>3.78%</u>
Cost of funds			2.90%			2.63%			1.67%
Cost of deposits			2.84%			2.60%			1.59%

Dogwood State Bank
Non-GAAP Reconciliation

	Quarter Ended				
	Mar 31 2024	Dec 31 2023	Sept 30 2023	Jun 30 2023	Mar 31 2023
(In thousands, except per share data)					
Net income and EPS:					
Net income (GAAP)	\$ 1,838	\$ 2,934	\$ 2,937	\$ 1,980	\$ 2,797
Adjust for merger and acquisition expenses, net of tax	738	11	-	-	-
Adjusted net income (non-GAAP)	\$ 2,576	\$ 2,945	\$ 2,937	\$ 1,980	\$ 2,797
Weighted average common shares outstanding					
Basic	14,377	14,329	14,329	14,329	13,605
Diluted	15,075	15,039	15,026	15,017	14,258
EPS (GAAP)					
Basic	\$ 0.13	\$ 0.20	\$ 0.20	\$ 0.14	\$ 0.21
Diluted	0.12	0.20	0.20	0.13	0.20
Adjusted EPS (non-GAAP)					
Basic	\$ 0.18	\$ 0.21	\$ 0.20	\$ 0.14	\$ 0.21
Diluted	0.17	0.20	0.20	0.13	0.20
PPNR:					
Net income (GAAP)	\$ 1,838	\$ 2,934	\$ 2,937	\$ 1,980	\$ 2,797
Add:					
Provision for credit losses	921	1,638	1,063	1,725	738
Income tax expense	588	865	902	550	707
PPNR (non-GAAP)	3,347	5,437	4,902	4,255	4,242
Less: merger and acquisition expenses	958	14	-	-	-
Adjusted PPNR (non-GAAP)	\$ 4,305	\$ 5,451	\$ 4,902	\$ 4,255	\$ 4,242
ROA:					
Net income (GAAP)	\$ 1,838	\$ 2,934	\$ 2,937	\$ 1,980	\$ 2,797
Adjusted net income (non-GAAP)	2,576	2,945	2,937	1,980	2,797
Average assets	1,402,220	1,448,929	1,339,667	1,192,052	1,135,962
ROA	0.53%	0.80%	0.87%	0.67%	1.00%
Adjusted ROA (non-GAAP)	0.74%	0.81%	0.87%	0.67%	1.00%
ROE and ROTCE:					
Net income (GAAP)	\$ 1,838	\$ 2,934	\$ 2,937	\$ 1,980	\$ 2,797
Adjusted net income (non-GAAP)	2,576	2,945	2,937	1,980	2,797
Average shareholders' equity (GAAP)	166,534	162,703	159,209	157,299	140,447
Less: average goodwill and other intangible assets, net	7,027	7,041	7,063	7,091	7,126
Average tangible common equity (non-GAAP)	159,507	155,662	152,146	150,208	133,321
ROE	4.44%	7.15%	7.32%	5.05%	8.08%
Adjusted ROE (non-GAAP)	6.22%	7.18%	7.32%	5.05%	8.08%
ROTCE (non-GAAP)	4.63%	7.48%	7.66%	5.29%	8.51%
Adjusted ROTCE (non-GAAP)	6.50%	7.51%	7.66%	5.29%	8.51%
Efficiency Ratio:					
Non-interest expense (GAAP)	\$ 10,815	\$ 10,173	\$ 9,140	\$ 8,350	\$ 8,414
Less: merger and acquisition expenses	958	14	-	-	-
Adjusted non-interest expense (non-GAAP)	9,857	10,159	9,140	8,350	8,414
Net interest income	11,312	11,900	11,005	9,853	10,026
Non-interest income	2,850	3,710	3,037	2,752	2,630
Total revenue	14,162	15,610	14,042	12,605	12,656
Efficiency ratio (non-interest expense / total revenue)	76.37%	65.17%	65.09%	66.24%	66.48%
Adjusted efficiency ratio (non-GAAP)	69.60%	65.08%	65.09%	66.24%	66.48%