



Dogwood State Bank Reports First Quarter 2022 Results

Raleigh, North Carolina, April 21, 2022 – Dogwood State Bank (the “Bank”) today announced its financial results for the quarter ended March 31, 2022.

“We achieved tremendous organic growth in the first quarter of 2022,” commented Steve Jones, Chief Executive Officer. “We continue to invest strategically in top talent across our footprint as we build our infrastructure to deliver a best-in-class customer experience.”

First Quarter 2022 Highlights

- Net income improved to \$2.5 million, compared to \$976 thousand in Q1 2021
- Diluted earnings per share improved to \$0.18 per share, compared to \$0.08 per share in Q1 2021
- Total loans, excluding PPP loans, increased by \$102.0 million (70% annualized) from Q4 2021 and increased by \$257.4 million (59%) from Q1 2021
- Total deposits increased by \$41.7 million (21% annualized) from Q4 2021 and increased by \$243.7 million (42%) from Q1 2021
- SBA 7(a) loan production increased to \$45.2 million, compared to \$25.1 million in Q1 2021
- The Bank closed a \$12.0 million private placement offering of common stock at \$18 per share

“I am pleased to announce the successful completion of our capital raise,” continued Mr. Jones. “In just a few days, the offering was oversubscribed by a significant amount. The demand for this investment opportunity was tremendous, and we are excited to welcome new shareholders to Dogwood State Bank. The success of this stock offering further enhances our ability to capitalize on the many opportunities in front of us.”

Net Interest Income

Net interest income was \$7.6 million for the three months ended March 31, 2022, an increase from \$5.8 million in the first quarter of 2021. 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 \$881.8 million in the first quarter of 2022 from \$650.9 million in the first quarter of 2021. Average loans, excluding PPP loans, increased by \$223.0 million. Average PPP loan balances decreased by \$94.1 million due to forgiveness payments. Average investment securities balances and interest-earning cash balances increased by \$55.9 million and \$46.0 million, respectively.

Net interest margin decreased to 3.48% in the first quarter of 2022, compared to 3.60% in the first quarter of 2021. Net interest margin was negatively impacted by a decline in interest-earning asset yields, partially offset by a decrease in cost of funds. Excluding the impact of PPP, net interest margin decreased to 3.30% (non-GAAP) in the first quarter of 2022, compared to 3.48% (non-GAAP) in the first quarter of 2021.

Provision for Loan Losses and Asset Quality

Provision for loan losses was \$438 thousand for the three months ended March 31, 2022, a decrease from \$762 thousand in the first quarter of 2021. The decrease in provision expense reflects improving economic conditions and 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 1.02% as of March 31, 2022, compared to 1.12% as of December 31, 2021 and 1.09% as of March 31, 2021.

Asset quality metrics have remained strong with nonperforming loans at 0.12% of total loans as of March 31, 2022, compared to 0.10% as of December 31, 2021 and 0.07% as of March 31, 2021. Net charge offs were 0.00% of average loans in both the first quarter of 2022 and the first quarter of 2021.

Non-Interest Income

Non-interest income was \$3.8 million for the three months ended March 31, 2022, an increase from \$2.6 million in the first quarter of 2021. Most of this increase was related to government guaranteed lending ("GGL") income, which grew by \$1.4 million compared to the first quarter of 2021. GGL lending income growth was due to higher production levels and sales of guaranteed U.S. Small Business Administration ("SBA") 7(a) loans, partially offset by lower secondary market premiums on those loan sales. Loan production under the SBA's 7(a) loan program increased to \$45.2 million in the first quarter of 2022, compared to \$25.1 million in the first quarter of 2021. The weighted average net premium on SBA loans sold in the first quarter of 2022 was 10.95%, which was a decrease from 12.98% in the first quarter of 2021.

In the first quarter of 2022, the Bank realized a one-time loss of \$320 thousand on the sale of a pool of unguaranteed solar loans made in previous years through one of the U.S. Department of Agriculture's lending programs. This loss was recorded as a reduction to other non-interest income.

Non-Interest Expense

Non-interest expense was \$7.7 million for the three months ended March 31, 2022, an increase from \$6.3 million for the first quarter of 2021. Most of the increase was related compensation and benefits, which increased by \$981 thousand compared to the first quarter of 2021. Significant investments have been made in human capital across the Bank over the past year to support its rapid growth, which resulted in increased expenses in this area. Additionally, SBA commissions have increased as production has grown.

Income Taxes

Income tax expense was \$719 thousand for the three months ended March 31, 2022, compared to \$269 thousand in the first quarter of 2021. The effective tax rate was 22.30% in the first quarter of 2022, which was a slight increase compared to 21.61% in the first 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 \$974 million 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.

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				
	Mar 31 2022	Dec 31 2021	Sept 30 2021	Jun 30 2021	Mar 31 2021
<i>(Dollars in thousands, except per share data)</i>					
Net interest income	\$ 7,559	\$ 7,244	\$ 6,850	\$ 6,058	\$ 5,786
Provision for loan losses	438	870	536	700	762
Net interest income after provision	7,121	6,374	6,314	5,358	5,024
Non-interest income					
Government-guaranteed lending	3,608	3,787	4,004	3,286	2,201
Service charges and debit card income	316	267	218	211	183
Bank-owned life insurance	160	179	168	118	115
Securities gains (losses), net	23	(3)	(5)	15	(3)
Other	(276)	58	62	89	56
Total non-interest income	3,831	4,288	4,447	3,719	2,552
Non-interest expense					
Compensation and benefits	5,333	11,302	5,355	4,820	4,352
Occupancy and equipment	574	550	509	505	446
Data processing	281	281	248	249	243
Amortization of other intangible assets	64	71	77	84	91
Other	1,476	1,356	1,342	1,321	1,199
Total non-interest expense	7,728	13,560	7,531	6,979	6,331
Net income (loss) before income taxes	3,224	(2,898)	3,230	2,098	1,245
Income tax expense (benefit)	719	(2,167)	712	468	269
Net income (loss)	\$ 2,505	\$ (731)	\$ 2,518	\$ 1,630	\$ 976
Per Share Data:					
Earnings per share - basic	\$ 0.19	\$ (0.05)	\$ 0.19	\$ 0.12	\$ 0.08
Earnings per share - diluted	\$ 0.18	\$ (0.05)	\$ 0.18	\$ 0.12	\$ 0.08
Performance Ratios:					
Return on average assets	1.08%	-0.32%	1.19%	0.85%	0.57%
Return on average equity	8.06%	-2.39%	8.36%	5.58%	3.97%
Return on tangible common equity	8.55%	-2.54%	8.92%	5.96%	4.30%
Net interest margin	3.48%	3.45%	3.45%	3.34%	3.60%
Efficiency ratio	67.85%	117.59%	66.66%	71.38%	75.93%

Dogwood State Bank
Balance Sheet

	Ending Balance as of				
	Mar 31 2022	Dec 31 2021	Sept 30 2021	Jun 30 2021	Mar 31 2021
(Dollars in thousands, except per share data)					
Assets					
Cash and due from banks	\$ 1,831	\$ 2,705	\$ 1,835	\$ 2,005	\$ 2,018
Interest-earning deposits with banks	65,149	92,402	111,651	90,302	33,173
Investment securities	114,246	111,513	98,970	73,038	62,961
Loans held for sale	11,043	9,331	16,987	2,851	6,412
PPP loans	31,598	61,327	89,010	120,447	163,469
Loans, excluding PPP loans	693,632	591,679	511,963	474,945	436,192
Less allowance for loan losses	(7,062)	(6,625)	(5,871)	(5,335)	(4,749)
Loans, net	686,570	585,054	506,092	469,610	431,443
Bank-owned life insurance	26,171	26,268	26,307	18,639	15,023
Premises and equipment, net	16,162	16,360	14,652	15,509	15,711
Servicing assets	2,943	2,390	1,791	1,417	807
Goodwill	7,016	7,016	7,016	7,016	7,016
Other intangible assets, net	279	343	414	491	575
Other assets	11,315	10,380	6,549	6,609	7,286
Total assets	\$ 974,323	\$ 925,089	\$ 881,274	\$ 807,934	\$ 745,894
Liabilities and Shareholders' Equity					
Deposits:					
Noninterest-bearing	\$ 276,270	\$ 236,162	\$ 226,463	\$ 217,839	\$ 212,202
Interest-bearing	553,182	551,551	516,348	449,501	373,535
Total deposits	829,452	787,713	742,811	667,340	585,737
FHLB advances	-	4,000	4,000	10,000	10,000
PPPLF borrowings	-	-	-	-	22,036
Lease obligations	8,549	8,584	6,845	6,967	7,086
Other liabilities	5,378	5,835	6,631	5,443	5,059
Total liabilities	843,379	806,132	760,287	689,750	629,918
Total shareholders' equity	130,944	118,957	120,987	118,184	115,976
Total liabilities and shareholders' equity	\$ 974,323	\$ 925,089	\$ 881,274	\$ 807,934	\$ 745,894
Per Share Information:					
Shares outstanding	13,796,916	13,122,600	13,461,385	13,441,385	13,441,385
Book value per share	\$ 9.49	\$ 9.07	\$ 8.99	\$ 8.79	\$ 8.63
Tangible book value per share (non-GAAP)	\$ 8.96	\$ 8.50	\$ 8.44	\$ 8.23	\$ 8.06
Capital Ratios:					
Equity to assets	13.44%	12.86%	13.73%	14.63%	15.55%
Tangible common equity to tangible assets (non-GAAP)	12.79%	12.16%	13.00%	13.83%	14.68%
Tier 1 leverage	13.38%	12.39%	13.50%	14.57%	16.97%
Common equity Tier 1 capital	16.38%	16.68%	19.56%	21.05%	22.56%
Tier 1 capital	16.38%	16.68%	19.56%	21.05%	22.56%
Total capital	17.33%	17.70%	20.60%	22.09%	23.57%
Asset Quality:					
Non-accrual loans	\$ 555	\$ 565	\$ 707	\$ 743	\$ 413
Loans 90 days or more past due and accruing	299	60	26	26	29
Other real estate owned	-	-	-	-	-
Total nonperforming assets	\$ 854	\$ 625	\$ 733	\$ 769	\$ 442
Nonperforming loans to total loans	0.12%	0.10%	0.12%	0.13%	0.07%
Nonperforming assets to total assets	0.09%	0.07%	0.08%	0.10%	0.06%
Nonperforming assets to total loans and other real estate owned	0.12%	0.11%	0.14%	0.16%	0.10%
Allowance for loan losses to loans, excluding PPP loans	1.02%	1.12%	1.15%	1.12%	1.09%
Allowance for loan losses to nonperforming loans	826.93%	1060.00%	800.95%	693.76%	1074.43%

Dogwood State Bank
Net Interest Margin Analysis

	Quarter Ended								
	March 31, 2022			December 31, 2021			March 31, 2021		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<i>(Dollars in thousands)</i>									
Interest-Earning Assets:									
Loans, excluding PPP loans	\$ 629,416	\$ 6,685	4.31%	\$ 550,616	\$ 6,114	4.41%	\$ 406,370	\$ 4,556	4.55%
PPP loans	47,808	769	6.52%	73,440	1,103	5.96%	141,872	1,459	4.17%
Investment securities	113,759	490	1.75%	106,373	387	1.44%	57,890	254	1.78%
Interest-earning deposits with banks	90,825	41	0.18%	114,247	43	0.15%	44,802	10	0.09%
Total interest-earning assets	881,808	7,985	3.67%	844,676	7,647	3.59%	650,934	6,279	3.91%
Non interest-earning assets	58,758			54,726			43,728		
Total assets	<u>\$ 940,566</u>			<u>\$ 899,402</u>			<u>\$ 694,662</u>		
Interest-Bearing Liabilities:									
Interest-bearing demand	\$ 107,109	\$ 37	0.14%	\$ 118,390	\$ 46	0.15%	\$ 44,417	\$ 18	0.16%
Savings and money market	327,517	226	0.28%	300,334	208	0.27%	196,199	201	0.42%
Time	104,052	105	0.41%	103,196	84	0.32%	91,681	157	0.69%
Total interest-bearing deposits	538,678	368	0.28%	521,920	338	0.26%	332,297	376	0.46%
FHLB advances	1,333	6	1.83%	4,000	17	1.69%	15,317	30	0.79%
PPPLF borrowings	-	-	0.00%	-	-	0.00%	50,772	44	0.35%
Lease obligations	8,543	52	2.47%	7,591	48	2.51%	6,456	43	2.70%
Total interest-bearing liabilities	548,554	426	0.31%	533,511	403	0.30%	404,842	493	0.49%
Non-interest bearing deposits	260,352			237,884			186,152		
Other liabilities	5,570			6,553			3,816		
Shareholders' equity	126,090			121,454			99,852		
Total liabilities and shareholders' equity	<u>\$ 940,566</u>			<u>\$ 899,402</u>			<u>\$ 694,662</u>		
Net interest income and interest rate spread		<u>\$ 7,559</u>	<u>3.36%</u>		<u>\$ 7,244</u>	<u>3.29%</u>		<u>\$ 5,786</u>	<u>3.42%</u>
Net interest margin			<u>3.48%</u>			<u>3.40%</u>			<u>3.60%</u>
Cost of funds			0.21%			0.21%			0.34%