



## Dogwood State Bank Reports First Quarter 2023 Results

Raleigh, North Carolina, April 21, 2023 – Dogwood State Bank (the “Bank”) today announced its financial results for the three months ended March 31, 2023.

### First Quarter 2023 Highlights

- Hired commercial banking team to build out new Charleston, South Carolina market
- Improved net income in Q1 2023 to \$2.8 million, or \$0.20 per diluted share, compared to \$2.5 million, or \$0.18 per diluted share, in Q1 2022
- Improved net interest margin to 3.78% in Q1 2023, compared to 3.48% in Q1 2022
- Grew loans by \$210.9 million (30%) over the past 12 months
- Grew deposits by \$113.1 million (14%) over the past 12 months
- Completed a \$16.4 million private placement offering of common stock

“The first quarter of 2023 reflects Dogwood’s commitment to providing a best-in-class experience for customers, employees, and shareholders. Through the strength of our financial and capital position, Dogwood successfully navigated the challenges that impacted the market during the quarter,” commented Steve Jones, Chief Executive Officer. “Our solid balance sheet enabled the progression of our growth strategy as well as our ability to support our customers throughout this unique environment. We are excited to expand our South Carolina footprint to include Charleston, SC with the addition of Seth Horton as Market Executive. Our focus on acquiring top talent continues to be a key component to the Dogwood success story, and we are thrilled to include Charleston in the next chapter.”

### Earnings Performance

#### *Net Interest Income*

Net interest income was \$10.0 million in Q1 2023, an increase from \$7.6 million in Q1 2022. 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 \$1.07 billion in Q1 2023 from \$881.8 million in Q1 2022. Average loans, excluding PPP loans, increased by \$266.0 million. Average PPP loan balances decreased by \$42.7 million due to forgiveness payments. Average investment securities balances increased by \$8.6 million, and average interest-earning cash balances decreased by \$39.0 million.

Net interest margin increased to 3.78% in Q1 2023, compared to 3.48% in Q1 2022. Net interest margin benefited from an increase in interest-earning asset yields coupled with a slower increase in cost of funds over these periods. In an effort to lower inflation in the U.S. economy, the Federal Open Market Committee (“FOMC”) has increased the federal funds target rate by an aggregate 4.75% since the beginning of 2022.

Given the Bank’s balance sheet profile and interest rate position, higher interest rates generally benefited its net interest margin in Q1 2023 compared to the same quarter in the prior year. However, funding costs began to rise more rapidly than interest-earning asset yields during Q1 2023, which led to a decrease in linked-quarter net interest margin from 4.06% in Q4 2022 to 3.78% in Q1 2023.

#### *Provision for Loan Losses and Asset Quality*

Provision for loan losses was \$559 thousand in Q1 2023, an increase from \$438 thousand in Q1 2022. The increase in provision expense was primarily due to a \$207 thousand increase in net charge-offs over the same periods. The Bank’s allowance for credit losses to total loans, excluding PPP loans, increased to 1.13% as of March 31, 2023, compared to 1.00% as of December 31, 2022 and 1.02% as of March 31, 2022.

Effective January 1, 2023, the Bank adopted the accounting standard commonly referred to as the Current Expected Credit Losses reserve methodology (“CECL”). Due to the adoption of CECL, the Bank recorded an adjustment to the allowance for credit losses of \$1.2 million and an adjustment to the reserve for unfunded commitments of \$583 thousand. The related tax-effected charge to retained earnings related to CECL adoption was \$1.4 million.

Asset quality metrics remained strong even as nonperforming loans increased to 0.23% of total loans as of March 31, 2023, compared to 0.15% as of December 31, 2022 and 0.12% as of March 31, 2022. Annualized net charge offs were 0.09% of average loans in Q1 2023, compared to 0.00% in Q1 2022.

#### *Non-Interest Income*

Non-interest income was \$2.6 million in Q1 2023, a decrease from \$3.8 million in Q1 2022. Most of this decrease was related to a \$1.5 million 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 lower volume of guaranteed loans sold in the quarter. The decline in GGL lending income was partially offset by a \$226 thousand recovery of previous impairment on the SBA servicing asset in Q1 2023.

Loan production under the SBA’s 7(a) loan program totaled \$31.0 million in Q1 2023, compared to \$47.7 million in Q1 2022. Guaranteed balances of SBA loans sold totaled \$21.9 million in Q1 2023, compared to \$32.7 million in Q1 2022. The weighted average net premium on SBA loans sold in Q1 2023 was 7.85%, which was a decrease from 10.89% in Q1 2022.

#### *Non-Interest Expense*

Non-interest expense was \$8.6 million in Q1 2023, an increase from \$7.7 million in Q1 2022. Some of the increase was related to compensation and benefits, which increased by \$326 thousand. Significant investments have been made in human capital across the Bank to support its growth, which resulted in increased expenses in this area. Also, the provision for unfunded commitments, which is recorded in other non-interest expense, increased by \$190 thousand due to an increase in new loan commitments along with a higher CECL reserve rate.

## *Income Taxes*

Income tax expense was \$707 thousand in Q1 2023, compared to \$719 thousand in Q1 2022. The effective tax rate was 20.18% in Q1 2023, which was slightly lower than an effective tax rate of 22.30% in Q1 2022.

## **Capital and Liquidity Strength**

During Q1 2023, the Bank completed a \$16.4 million capital raise, which consisted of a private placement offering of 819,333 shares of common stock at \$20 per share. The Bank did not use a placement agent for the raise. This growth capital was raised at an accretive valuation and is intended to accelerate the buildout of the Bank's franchise in the Carolinas. Tangible book value per share increased to \$10.13 as of March 31, 2023, which was up by 7% in the quarter. Further, the Common Equity Tier 1 ratio and Total Risk-Based Capital ratio increased to 15.62% and 16.78%, respectively, as of March 31, 2023. These regulatory capital ratios are significantly in excess of the required regulatory well-capitalized thresholds of 6.50% and 10.00%, respectively.

Total deposits increased by \$38.6 million in Q1 2023 and by \$113.1 million over the past twelve months. The Bank funds its loan growth primarily with customer deposits and has built a diverse product set and deposit portfolio across a wide variety of customers and industries. The Bank also offers a number of services that can provide extended FDIC coverage. As of March 31, 2023, the average deposit account size was \$100 thousand, and the percentage of uninsured deposits to total deposits was 39%.

The Bank's primary on-balance sheet liquidity consists of cash and cash equivalents along with unpledged available for sale investment securities, which totaled \$117.4 million as of March 31, 2023. Additionally, the Bank maintains fully collateralized credit facilities with the Federal Home Loan Bank of Atlanta ("FHLB") and the Federal Reserve Bank of Richmond ("Federal Reserve"). As of March 31, 2023, the FHLB credit facility totaled \$211.0 million, with \$149.5 million of available borrowing capacity. As of March 31, 2023, the Federal Reserve discount window credit facility totaled \$92.9 million, and the Federal Reserve Bank Term Funding Program credit facility totaled \$17.8 million. The Bank has not borrowed against either of the Federal Reserve credit facilities nor does it anticipate borrowing against them in the near future. In aggregate, total primary on-balance sheet liquidity and total available borrowing capacity at the FHLB and Federal Reserve exceeded the amount of uninsured deposits as of March 31, 2023.

## **About Dogwood State Bank**

Dogwood State Bank is a North Carolina state-chartered community bank headquartered in Raleigh, North Carolina, with approximately \$1.18 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](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 Statements

	Quarter Ended				
	Mar 31 2023	Dec 31 2022	Sept 30 2022	Jun 30 2022	Mar 31 2022
(In thousands, except per share data)					
<b>Net interest income</b>	\$ 10,026	\$ 10,418	\$ 9,989	\$ 8,528	\$ 7,559
Provision for loan losses	559	826	863	583	438
Net interest income after provision for loan losses	<u>9,467</u>	<u>9,592</u>	<u>9,126</u>	<u>7,945</u>	<u>7,121</u>
<b>Non-interest income</b>					
Government-guaranteed lending	2,066	1,736	2,159	2,337	3,608
Service charges and debit card income	353	333	337	325	316
Bank-owned life insurance	180	179	179	178	160
Securities gains (losses), net	(9)	(4)	(6)	(5)	23
Other	40	53	47	60	(276)
Total non-interest income	<u>2,630</u>	<u>2,297</u>	<u>2,716</u>	<u>2,895</u>	<u>3,831</u>
<b>Non-interest expense</b>					
Compensation and benefits	5,659	5,505	5,315	5,479	5,333
Occupancy and equipment	588	495	548	593	574
Data processing	255	269	290	303	281
Software	327	313	246	225	223
Professional fees	243	259	201	159	227
Amortization of other intangible assets	38	44	51	58	64
Other	1,483	1,347	1,368	1,075	1,026
Total non-interest expense	<u>8,593</u>	<u>8,232</u>	<u>8,019</u>	<u>7,892</u>	<u>7,728</u>
Net income before income taxes	<u>3,504</u>	<u>3,657</u>	<u>3,823</u>	<u>2,948</u>	<u>3,224</u>
Income tax expense	707	827	856	655	719
Net income	<u>\$ 2,797</u>	<u>\$ 2,830</u>	<u>\$ 2,967</u>	<u>\$ 2,293</u>	<u>\$ 2,505</u>
<b>Per Share Data:</b>					
Earnings per share - basic	\$ 0.21	\$ 0.21	\$ 0.22	\$ 0.17	\$ 0.19
Earnings per share - diluted	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.21</u>	<u>\$ 0.16</u>	<u>\$ 0.18</u>
Weighted average common shares - basic	13,605	13,483	13,483	13,483	13,237
Weighted average common shares - diluted	14,258	14,115	14,099	14,092	13,848
<b>Performance Ratios:</b>					
Return on average assets	1.00%	1.04%	1.14%	0.92%	1.08%
Return on average equity	8.08%	8.23%	8.76%	6.95%	8.06%
Return on tangible common equity	8.51%	8.69%	9.26%	7.36%	8.55%
Net interest margin	3.78%	4.06%	4.08%	3.65%	3.48%
Efficiency ratio	67.90%	64.74%	63.12%	69.09%	67.85%
Non-interest expense to average assets	3.07%	3.03%	3.09%	3.18%	3.33%

**Dogwood State Bank**  
**Balance Sheets**

	Ending Balance				
	Mar 31 2023	Dec 31 2022	Sept 30 2022	Jun 30 2022	Mar 31 2022
(In thousands, except per share data)					
<b>Assets</b>					
Cash and due from banks	\$ 5,257	\$ 3,149	\$ 4,319	\$ 1,956	\$ 1,831
Interest-earning deposits with banks	<b>71,310</b>	36,734	31,850	55,871	65,149
Total cash and cash equivalents	<b>76,567</b>	39,883	36,169	57,827	66,980
Investment securities available for sale	<b>40,810</b>	41,042	40,248	41,485	46,764
Investment securities held to maturity	<b>80,746</b>	81,512	75,716	75,200	67,216
Marketable equity securities	<b>243</b>	252	255	261	266
Total investment securities	<b>121,799</b>	122,806	116,219	116,946	114,246
SBA loans held for sale	<b>9,511</b>	11,545	4,289	10,404	11,043
PPP loans	<b>3,294</b>	6,655	8,007	15,368	31,598
Loans, excluding PPP loans	<b>904,557</b>	876,123	819,465	757,829	693,632
Less allowance for credit losses	<b>(10,235)</b>	(8,728)	(8,304)	(7,631)	(7,062)
Loans, net	<b>894,322</b>	867,395	811,161	750,198	686,570
Bank-owned life insurance	<b>26,887</b>	26,707	26,528	26,349	26,171
Premises and equipment, net	<b>17,515</b>	17,376	15,486	15,801	16,162
SBA servicing asset	<b>3,603</b>	3,168	3,381	2,908	2,943
Goodwill	<b>7,016</b>	7,016	7,016	7,016	7,016
Other intangible assets, net	<b>89</b>	126	170	221	279
Other assets	<b>14,511</b>	15,579	12,883	11,573	11,315
Total assets	<b>\$ 1,175,114</b>	\$ 1,118,256	\$ 1,041,309	\$ 1,014,611	\$ 974,323
<b>Liabilities and Shareholders' Equity</b>					
Deposits:					
Noninterest-bearing	\$ 283,469	\$ 315,804	\$ 321,088	\$ 332,258	\$ 276,270
Interest-bearing	<b>659,062</b>	588,113	554,718	519,802	553,182
Total deposits	<b>942,531</b>	903,917	875,806	852,060	829,452
FHLB advances	<b>60,000</b>	60,000	15,000	15,000	-
Lease obligations	<b>9,538</b>	9,730	8,184	8,352	8,549
Other liabilities	<b>7,216</b>	6,692	8,106	6,771	5,378
Total liabilities	<b>1,019,285</b>	980,339	907,096	882,183	843,379
<b>Shareholders' equity</b>					
Common stock (\$1 par value)	<b>14,678</b>	13,828	13,808	13,797	13,797
Additional paid-in capital	<b>131,562</b>	116,129	115,656	115,486	115,312
Retained earnings	<b>14,556</b>	13,199	10,369	7,403	5,109
Accumulated other comprehensive loss	<b>(4,967)</b>	(5,239)	(5,620)	(4,258)	(3,274)
Total shareholders' equity	<b>155,829</b>	137,917	134,213	132,428	130,944
Total liabilities and shareholders' equity	<b>\$ 1,175,114</b>	\$ 1,118,256	\$ 1,041,309	\$ 1,014,611	\$ 974,323
<b>Per Share Information:</b>					
Shares outstanding	<b>14,678</b>	13,828	13,808	13,797	13,797
Book value per share	\$ <b>10.62</b>	\$ 9.97	\$ 9.72	\$ 9.60	\$ 9.49
Tangible book value per share (non-GAAP)	\$ <b>10.13</b>	\$ 9.46	\$ 9.20	\$ 9.07	\$ 8.96
<b>Capital Ratios:</b>					
Tier 1 leverage	<b>13.40%</b>	12.45%	12.71%	12.88%	13.37%
Common equity Tier 1 capital	<b>15.62%</b>	14.20%	14.56%	15.33%	16.28%
Tier 1 risk-based capital	<b>15.62%</b>	14.20%	14.56%	15.33%	16.28%
Total risk-based capital	<b>16.78%</b>	15.14%	15.50%	16.27%	17.21%
Tangible common equity (non-GAAP)	<b>12.73%</b>	11.77%	12.28%	12.43%	12.79%

**Dogwood State Bank**  
**Asset Quality Measures**

(In thousands)	Quarter Ended				
	Mar 31 2023	Dec 31 2022	Sept 30 2022	Jun 30 2022	Mar 31 2022
<b>Nonperforming Assets:</b>					
Non-accrual loans	\$ 1,089	\$ 1,019	\$ 693	\$ 486	\$ 548
Loans 90 days or more past due and accruing	989	302	466	202	299
Other real estate owned	-	-	-	-	-
Total nonperforming assets	\$ 2,078	\$ 1,321	\$ 1,159	\$ 688	\$ 847
<b>Asset Quality Ratios:</b>					
Nonperforming loans/loans	0.23%	0.15%	0.14%	0.09%	0.12%
Nonperforming assets/total assets	0.18%	0.12%	0.11%	0.07%	0.09%
Nonperforming assets/loans and other real estate owned	0.23%	0.15%	0.14%	0.09%	0.12%
Loans 30 days or more past due/loans (excludes non-accruals)	0.25%	0.22%	0.07%	0.04%	0.09%
<b>Allowance for Credit Losses:</b>					
Balance, beginning of period	\$ 8,728	\$ 8,304	\$ 7,631	\$ 7,062	\$ 6,625
CECL adjustment	1,156	-	-	-	-
Loans charged off	(218)	(402)	(191)	(14)	(1)
Recoveries of loans previously charged off	10	-	1	-	-
Net loans charged off	(208)	(402)	(190)	(14)	(1)
Provision for credit losses	559	826	863	583	438
Balance, end of period	\$ 10,235	\$ 8,728	\$ 8,304	\$ 7,631	\$ 7,062
<b>Reserve for unfunded commitments:</b>					
Balance, beginning of period	\$ 162	\$ 152	\$ 136	\$ 125	\$ 135
CECL adjustment	583	-	-	-	-
Provision for unfunded commitments	180	10	16	11	(10)
Balance, end of period	\$ 925	\$ 162	\$ 152	\$ 136	\$ 125
<b>Allowance for Credit Losses Ratios:</b>					
Allowance for credit losses/loans	1.13%	1.00%	1.01%	1.01%	1.02%
Allowance for credit losses/nonperforming loans	492.54%	660.71%	716.48%	1109.16%	833.77%
Net charge-offs/average loans (annualized)	0.09%	0.19%	0.09%	0.01%	0.00%

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

	Quarter Ended								
	March 31, 2023			December 31, 2022			March 31, 2022		
	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	\$ 895,436	\$ 12,642	5.73%	\$ 850,051	\$ 11,346	5.30%	\$ 629,416	\$ 6,685	4.31%
PPP loans	5,092	94	7.49%	7,322	74	4.01%	47,808	769	6.52%
Investment securities	122,319	820	2.72%	119,732	768	2.54%	113,759	490	1.75%
Interest-earning deposits with banks	51,836	533	4.17%	39,794	324	3.23%	90,825	41	0.18%
Total interest-earning assets	<u>1,074,683</u>	<u>14,089</u>	<u>5.32%</u>	<u>1,016,899</u>	<u>12,512</u>	<u>4.88%</u>	<u>881,808</u>	<u>7,985</u>	<u>3.67%</u>
Non interest-earning assets	61,279			62,183			58,758		
Total assets	<u>\$ 1,135,962</u>			<u>\$ 1,079,082</u>			<u>\$ 940,566</u>		
<b>Interest-Bearing Liabilities:</b>									
Interest-bearing demand	\$ 108,782	\$ 177	0.66%	\$ 125,929	\$ 125	0.39%	\$ 107,109	\$ 37	0.14%
Savings and money market	359,979	2,112	2.38%	330,399	1,083	1.30%	327,517	226	0.28%
Time	189,574	1,466	3.14%	108,065	436	1.60%	104,052	105	0.41%
Total interest-bearing deposits	658,335	3,755	2.31%	564,393	1,644	1.16%	538,678	368	0.28%
FHLB advances	22,000	256	4.72%	39,402	402	4.05%	1,333	6	1.83%
Lease obligations	9,642	52	2.19%	9,001	48	2.12%	8,543	52	2.47%
Total interest-bearing liabilities	689,977	4,063	2.39%	612,796	2,094	1.36%	548,554	426	0.31%
Non-interest bearing deposits	298,618			321,915			260,352		
Other liabilities	6,920			7,949			5,570		
Shareholders' equity	140,447			136,422			126,090		
Total liabilities and shareholders' equity	<u>\$ 1,135,962</u>			<u>\$ 1,079,082</u>			<u>\$ 940,566</u>		
Net interest income and interest rate spread		<u>\$ 10,026</u>	<u>2.93%</u>		<u>\$ 10,418</u>	<u>3.53%</u>		<u>\$ 7,559</u>	<u>3.36%</u>
Net interest margin			<u>3.78%</u>			<u>4.06%</u>			<u>3.48%</u>
Cost of funds			1.67%			0.89%			0.21%
Cost of deposits			1.59%			0.74%			0.19%