

Dogwood State Bank

Report on Financial Statements

For the years ended December 31, 2024 and 2023

Dogwood State Bank

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Independent Auditor's Report

Board of Directors
Dogwood State Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Dogwood State Bank (the "Company"), which comprise the balance sheets as of December 31, 2024 and 2023, the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 28, 2025 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Elliott Davis, PLLC". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
March 28, 2025

Independent Auditor's Report

Board of Directors
Dogwood State Bank

Opinion on Internal Control Over Financial Reporting

We have audited Dogwood State Bank's (the "Company") internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended of the Company, and our report dated March 28, 2025 expressed an unmodified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting" section of our audit report. We are required to be independent of the Company and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting.

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the Federal Financial Institutions Examination Council (FFIEC) Instructions for Consolidated Reports of Condition and Income. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that the receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Company, and the Federal Deposit Insurance Corporation, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Elliott Davis, PLLC". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
March 28, 2025

Dogwood State Bank

Balance Sheets

As of December 31, 2024 and 2023

(dollars in thousands, except per share information)

	2024	2023
Assets		
Cash and due from banks	\$ 10,582	\$ 5,191
Interest-earning deposits with banks	75,612	123,474
Total cash and cash equivalents	86,194	128,665
Investment securities available for sale (amortized cost of \$103,861 and \$53,361 at December 31, 2024 and 2023)	99,412	49,244
Investment securities held to maturity (fair value of \$59,835 and \$66,155 at December 31, 2024 and 2023)	71,952	77,556
Marketable equity securities	395	329
Loans held for sale	6,733	15,274
Loans	1,819,796	1,095,339
Allowance for credit losses	(19,698)	(11,943)
Loans, net	1,800,098	1,083,396
Premises and equipment, net	37,164	18,707
Bank-owned life insurance	45,089	27,458
Goodwill	11,771	7,016
Other intangible assets, net	11,374	15
Accrued interest receivable and other assets	40,988	24,028
Total assets	\$ 2,211,170	\$ 1,431,688
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand	\$ 474,458	\$ 291,910
Interest-bearing demand	144,969	121,876
Money market and savings	745,659	620,209
Time	444,309	160,284
Total deposits	1,809,395	1,194,279
FHLB advances	130,164	50,000
Subordinated debt	9,708	-
Reserve for unfunded commitments	2,570	2,060
Lease liability	12,258	11,187
Accrued interest payable and other liabilities	16,886	9,659
Total liabilities	1,980,981	1,267,185
Commitments and contingencies (Note 12)		
Shareholders' Equity		
Preferred stock (1,000,000 shares authorized; no shares outstanding in any period)	-	-
Voting common stock, par value \$1 (20,000,000 shares authorized; 17,923,654 and 9,264,818 shares issued and outstanding at December 31, 2024 and 2023, respectively)	17,924	9,265
Non-voting common stock, par value \$1 (9,000,000 shares authorized; 1,052,671 and 5,444,920 shares issued and outstanding at December 31, 2024 and 2023, respectively)	1,053	5,445
Additional paid-in-capital	188,175	132,373
Retained earnings	28,279	22,406
Accumulated other comprehensive loss	(5,242)	(4,986)
Total shareholders' equity	230,189	164,503
Total liabilities and shareholders' equity	\$ 2,211,170	\$ 1,431,688

See Notes to Financial Statements

Dogwood State Bank

Statements of Income

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

	2024	2023
Interest Income		
Loans	\$ 95,775	\$ 59,618
Investment securities	5,091	3,405
Federal funds sold and interest-earning deposits	4,512	5,480
Total interest income	105,378	68,503
Interest Expense		
Deposits	38,942	23,649
FHLB advances	2,696	1,831
Subordinated debt	348	-
Lease liability	273	239
Total interest expense	42,259	25,719
Net interest income	63,119	42,784
Provision for credit losses	9,911	5,164
Net interest income after provision for credit losses	53,208	37,620
Non-interest income		
Government-guaranteed lending	9,934	8,421
Service charges and fees on deposit accounts	2,456	1,399
Bank-owned life insurance	1,079	751
Gain on payoff of FHLB advances	-	1,230
Other	749	328
Total non-interest income	14,218	12,129
Non-interest expense		
Salaries, employee benefits, and other compensation	31,176	24,139
Occupancy and equipment	3,617	2,403
Data processing	2,004	1,010
Amortization of other intangible assets	1,022	111
Merger-related expense	11,254	-
Other	10,714	8,414
Total non-interest expense	59,787	36,077
Income before income taxes	7,639	13,672
Income tax expense	1,766	3,024
Net income	\$ 5,873	\$ 10,648
Earnings per common share		
Basic	\$ 0.36	\$ 0.75
Diluted	\$ 0.35	\$ 0.72
Weighted average common share		
Basic	16,274,859	14,151,826
Diluted	16,725,765	14,839,202

See Notes to Financial Statements

Dogwood State Bank

Statements of Comprehensive Income

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

	2024	2023
Net income	\$ 5,873	\$ 10,648
Other comprehensive (loss) income		
Unrealized (losses) gains on investment securities available for sale:		
Net unrealized (losses) gains on investment securities available for sale	(332)	331
Tax effect	76	(78)
Total change in unrealized (losses) gains on investment securities available for sale, net of tax	(256)	253
Other comprehensive (loss) income, net of tax	(256)	253
Total comprehensive income	\$ 5,617	\$ 10,901

See Notes to Financial Statements

Dogwood State Bank

Statements of Changes in Shareholders' Equity

For the years ended December 31, 2024 and 2023

(dollars in thousands)

	Number of voting shares	Number of non-voting shares	Voting common stock	Non- voting common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance, December 31, 2022	8,382,996	5,444,920	8,383	5,445	116,129	13,199	(5,239)	137,917
Net income	-	-	-	-	-	10,648	-	10,648
Adoption of new accounting standard	-	-	-	-	-	(1,441)	-	(1,441)
Other comprehensive income	-	-	-	-	-	-	253	253
Common stock issued	819,333	-	820	-	15,537	-	-	16,357
Restricted stock awards issued	74,350	-	74	-	(74)	-	-	-
Restricted stock awards forfeited	(10,761)	-	(11)	-	11	-	-	-
Vested restricted stock funded	-	-	-	-	(210)	-	-	(210)
Vested restricted stock tax withholding	(1,100)	-	(1)	-	(23)	-	-	(24)
Stock-based compensation	-	-	-	-	1,003	-	-	1,003
Balance, December 31, 2023	9,264,818	5,444,920	\$ 9,265	\$ 5,445	\$ 132,373	\$ 22,406	\$ (4,986)	\$ 164,503
Net income	-	-	-	-	-	5,873	-	5,873
Other comprehensive loss	-	-	-	-	-	-	(256)	(256)
Common stock issued in acquisition of CFB	3,449,466	-	3,449	-	50,121	-	-	53,570
Conversion of non-voting shares	4,996,962	(4,996,962)	4,997	(4,997)	-	-	-	-
Warrants exercised	-	604,713	-	605	5,093	-	-	5,698
Restricted stock awards issued	269,291	-	269	-	(269)	-	-	-
Restricted stock awards forfeited	(19,000)	-	(19)	-	19	-	-	-
Vested restricted stock funded	(1,100)	-	(1)	-	(18)	-	-	(19)
Vested restricted stock tax withholding	(36,783)	-	(36)	-	(551)	-	-	(587)
Stock-based compensation	-	-	-	-	1,407	-	-	1,407
Balance, December 31, 2024	<u>17,923,654</u>	<u>1,052,671</u>	<u>\$ 17,924</u>	<u>\$ 1,053</u>	<u>\$ 188,175</u>	<u>\$ 28,279</u>	<u>\$ (5,242)</u>	<u>\$ 230,189</u>

See Notes to Financial Statements

Dogwood State Bank

Statements of Cash Flows

For the years ended December 31, 2024 and 2023

(dollars in thousands)

	2024	2023
Operating activities		
Net income	\$ 5,873	\$ 10,648
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	9,911	5,164
Deferred tax benefit (expense)	1,169	(1,136)
Depreciation and amortization	3,704	2,226
Amortization of available for sale securities premiums	(155)	(137)
Stock-based compensation	1,407	1,003
Vesting restricted stock - tax withholding	(606)	(24)
Origination of loans held for sale	(128,263)	(139,490)
Proceeds from sale of loans held for sale	146,116	142,601
Gains on sale of loans	(7,703)	(6,840)
Gain on marketable equity securities	(66)	(77)
Change in cash surrender value of bank owned life insurance	(1,079)	(751)
Net increase in accrued interest payable	260	663
Net increase in accrued interest receivable	(912)	(642)
Net change in other assets	(7,519)	(3,165)
Net change in other liabilities	(1,754)	3,761
Net cash provided by operating activities	20,383	13,804
Investing activities		
Net increase in loans outstanding	(252,810)	(214,352)
Purchases of investment securities available for sale	(53,452)	(10,705)
Purchases of investment securities held to maturity	-	(445)
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	5,762	2,740
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	5,820	4,258
Proceeds from sales of investment securities available for sale	91,011	-
Proceeds from sales of premises and equipment	40	1,598
Purchases of premises and equipment	(6,254)	(4,625)
Cash received from acquisition of CFB, net	55,278	-
Net cash used in investing activities	(154,605)	(221,531)
Financing activities		
Net (decrease) increase in demand, money market, and savings deposits	(15,087)	281,424
Net increase in time deposits	57,675	8,939
Net increase (decrease) in FHLB advances	43,465	(10,000)
Warrants exercised	5,698	-
Proceeds from issuance of common stock, net	-	16,147
Net cash provided by financing activities	91,751	296,510
Change in cash and cash equivalents	(42,471)	88,782
Cash and cash equivalents, beginning of period	128,665	39,883
Cash and cash equivalents, end of period	\$ 86,194	\$ 128,665
Cash paid for:		
Interest	\$ 39,454	\$ 25,056
Income taxes	\$ 1,840	\$ 4,846
Supplemental disclosure of non-cash transactions		
Adoption of CECL	\$ -	\$ (1,441)
Initial recognition of right-of-use asset	\$ 2,094	\$ 2,287
Initial recognition of lease obligation	\$ 2,094	\$ 2,287
Net change in unrealized gain (loss) on available for sale securities	\$ (332)	\$ 331
Fair value of assets acquired	\$ 677,738	\$ -
Fair value of liabilities assumed	\$ 629,162	\$ -
Goodwill from acquisition	\$ 4,775	\$ -
Common stock issued related to acquisition	\$ 53,570	\$ -

See Notes to Financial Statements

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 1. Nature of Operations and Basis of Presentation

Nature of operations:

Dogwood State Bank (the “Company”) is a state-chartered bank organized under the laws of North Carolina. The Company is headquartered in Raleigh, North Carolina, and provides a wide range of banking services and products through its branch offices located in North Carolina, South Carolina, and eastern Tennessee. The Company also supports various government guaranteed lending (GGL) programs of the Small Business Administration (SBA) through its small business lending division.

Basis of presentation:

The accompanying financial statements include the accounts and transactions of the Company. The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In certain instances, amounts reported in the 2023 financial statements have been reclassified to conform to the current financial statement presentation.

Note 2. Summary of Significant Accounting Policies

Cash and cash equivalents:

Cash and cash equivalents include cash and due from banks, interest-earning deposits with banks, and federal funds sold. Cash and cash equivalents have original maturities of three months or less. The carrying amount of such instruments is considered a reasonable estimate of fair value.

Investment securities:

The Company classifies investment securities as held to maturity, available for sale, or trading at the time of purchase. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. Debt securities are classified as held to maturity where the Company has both the intent and ability to hold the securities to maturity. These securities are reported at amortized cost.

Investment securities available for sale are carried at fair value and consist of debt securities not classified as trading or held to maturity. Unrealized holding gains and losses on investment securities available for sale are reported in other comprehensive income, net of related tax effects. Gains and losses on the sale of investment securities available for sale are determined using the specific identification method recorded on a trade date basis.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Marketable equity securities:

Investments in equity securities having readily determinable fair values are stated at fair value. Realized and unrealized gains and losses on these securities are determined by specific identification and are included in noninterest income.

Allowance for credit losses – held to maturity securities:

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities was excluded from the estimate of credit losses.

The estimate of expected credit losses is primarily based on historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: US Government agency securities, agency mortgage-backed securities, agency commercial mortgage obligations, agency commercial mortgage-backed securities, taxable municipal securities, and tax-exempt municipal securities.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes held to maturity security is confirmed to be uncollectible. All residential and commercial mortgage-backed securities held by the Company are issued by government-sponsored enterprises and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and local government securities held by the Company are highly rated by major rating agencies. As a result, no allowance for credit losses was recorded on held-to-maturity securities at December 31, 2024 or December 31, 2023.

Allowance for credit losses – Available-for-sale securities:

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – Available-for-sale securities, continued:

If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. As of December 31, 2024 and December 31, 2023, there was no allowance for credit loss related to the available-for-sale portfolio.

Accrued interest receivable on available-for-sale debt securities was excluded from the estimate of credit losses. Accrued interest receivable on available-for-sale debt securities as of December 31, 2024 and 2023 was \$554 and \$228, respectively.

Loans held for sale:

Loans held for sale include the guaranteed portion of loans originated through the small business lending division that are expected to be sold in the secondary market to investors. Loans held for sale are carried at fair value.

Loans:

Loans that the Company has the intent and ability to hold for the foreseeable future, or until maturity, are reported at their outstanding principal balance, adjusted for any charge-offs, deferred fees or costs on originated loans and unamortized premiums or discounts on acquired loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan. Interest on loans is recorded based on the principal amount outstanding.

Loans are placed on nonaccrual status when they are past due 90 days or more. When a loan is placed in nonaccrual status, all unpaid accrued interest is reversed, and subsequent collections of interest and principal payments are generally applied as a reduction to the principal outstanding. Should the credit quality of a nonaccrual loan improve, the loan may be returned to an accrual status after demonstrating consistent payment history for at least six months.

The Company's loan policies, guidelines, and procedures establish the basic guidelines governing its lending operations. They address the types of loans sought, target markets, underwriting, collateral requirements, term, interest rate, yield considerations and compliance with laws and regulations. The loan policies are reviewed and approved annually by the Board of Directors.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Purchased Credit Deteriorated (PCD) loans:

The Company may purchase loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status, and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial allowance for credit loss determined on a collective basis is allocated to loans on an individual basis.

The sum of the loans purchase price and allowance for credit loss becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Allowance for credit losses – loans:

The allowance for credit losses is a valuation account that is deducted from the loans amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses. Accrued interest receivable on loans was \$6,411 and \$3,681 as of December 31, 2024 and 2023, respectively.

The allowance for credit losses (ACL) represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications.

The ACL is a reserve established through a provision for credit losses charged to expense. Loan balances are charged off against the ACL when the collectability of principal is unlikely.

Subsequent recoveries, if any, are credited to the ACL. The ACL is maintained at a level based on management's best estimate of probable credit losses that are inherent in the loan portfolio. Management evaluates the adequacy of the ACL on at least a quarterly basis.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – loans, continued:

For the majority of loans the ACL is calculated using a non-discounted cash flow methodology applied at a loan level with a one-year reasonable and supportable forecast period and then a reversion period. When the non-discounted cash flow method is used to determine the ACL, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments. The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. Management evaluates loans originated under government guaranteed lending (GGL) programs separately from loans originated from traditional sources due to risks specific to GGL lending, including risks related to customers being out of the Company's primary market areas. The Company's loan segments, and the specific risks of each segment are described below.

Construction/development loans – Risks common to construction/development loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values. Construction/development loans are further segmented into residential construction/development loans, GGL construction/development loans and other construction/development loans. Residential construction/development loans are also susceptible to risks associated with residential mortgage loans. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

Commercial real estate loans – Loans in this category are susceptible to declines in occupancy rates, business failure and general economic conditions. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category. Commercial real estate loans are further segmented into loans secured by non-owner occupied commercial real estate, loans secured by owner-occupied real estate that are originated under GGL programs, and loans secured by all other owner-occupied commercial real estate.

1-4 family loans – Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates and declining real estate values. This segment includes loans secured by both first lien and subordinate lien positions.

Commercial and industrial loans – Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral which often consists of inventory, accounts receivable and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt. Commercial and industrial loans are further segmented into commercial and industrial loans estate that are originated under GGL programs, including solar, and all other commercial and industrial loans.

Home equity loans – Risks common to home equity loans and lines of credit are general economic conditions, including an increase in unemployment rates, and declining real estate values which reduce or eliminate the borrower's home equity.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – loans, continued:

Other consumer loans – Risks common to these loans include regulatory risks, unemployment, and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

The Company individually evaluates loans that are classified as doubtful, substandard, or special mention. This evaluation includes several factors, including review of the loan payment status and the borrower's financial condition and operating results such as cash flows, operating income, or loss.

Allowance for Credit Losses – unfunded commitments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same aggregate reserve rates calculated for the funded portion of loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in liabilities on the Company's balance sheets.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Premises and equipment:

Land is carried at cost. Other components of premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of assets, which range from thirty-seven to forty years for buildings and three to seven years for furniture and equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in earnings.

Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Assets to be disposed of are transferred to other real estate owned and are reported at the lower of the carrying amount or fair value less costs to sell.

Bank-owned life insurance:

The Company has purchased life insurance policies on certain current and former employees and directors. These policies are recorded at their cash surrender value, or the amount that could be realized by surrendering the policies. Income from these policies and changes in the net cash surrender value are recorded in non-interest income.

Income taxes:

Deferred tax assets and liabilities are included in other assets. Deferred tax assets and liabilities reflect the estimated future tax consequences attributable to differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Other real estate owned:

Other real estate owned is included in other assets and includes assets acquired through loan foreclosure. These properties are held for sale and are initially recorded at fair value less costs to sell upon foreclosure. After foreclosure, valuations are periodically performed, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and valuation adjustments are included in noninterest expense. The Company had \$103 and \$0 in other real estate owned as of December 31, 2024 and 2023, respectively.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Equity investments at cost:

As a requirement for membership, the Company has invested in common stock of the Federal Home Loan Bank of Atlanta. This investment, which is included in other assets, is carried at cost, and is periodically evaluated for impairment.

Stock-based compensation:

Compensation cost is recognized for restricted stock awards granted to employees. Compensation cost is based on the fair value of restricted stock awards based on the market price of the Company's common stock at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period for restricted stock awards.

Earnings per share:

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential shares of common stock issuable under unvested restricted stock and warrants.

Fair value measurements:

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company follows the fair value hierarchy which gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to management's assumptions (unobservable inputs). For assets and liabilities recorded at fair value, the Company's policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investment securities available for sale are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Fair value measurements, continued:

Assets and liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls to a lower level in the hierarchy. These levels are described as follows:

- Level 1: Valuations for assets and liabilities traded in active exchange markets.
- Level 2: Valuations for assets and liabilities that can be obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets, and valuations are based on observable market data in those markets.
- Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The determination of where an asset or liability falls in the fair value hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures at each reporting period and based on various factors, it is possible that an asset or liability may be classified differently. However, management expects that changes in classifications between levels will be rare.

Accumulated other comprehensive income (loss):

The Company's accumulated other comprehensive income (loss) is comprised of unrealized gains and losses, net of taxes, on investment securities available for sale.

Segment reporting:

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, the Chief Executive Officer, in deciding how to allocate resources and in assessing performance. Management has determined that the Company has a single operating segment, which is providing general commercial banking and financial services to individuals and businesses located in North Carolina, South Carolina, and Tennessee and to customers in various states through its GGL Small Business Administration (SBA) lending program.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Segment reporting, continued:

The Company's various products and services are those generally offered by community banks, and the allocation of resources is based on the overall performance of the Company versus individual regions, branches, products, and services.

Business combinations:

The Company accounts for business combinations under the acquisition method of accounting. Assets acquired and liabilities assumed are measured and recorded at fair value at the date of acquisition, including identifiable intangible assets. If the consideration paid exceeds the fair value of the net assets acquired, goodwill is recognized at the acquisition date. If the fair value of net assets purchased exceeds the fair value of consideration paid, a bargain purchase gain is recognized at the date of acquisition. Fair values are subject to refinement for a period not to exceed one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

Fair values for acquired loans are generally based on a discounted cash flow methodology that considers credit loss expectations, market interest rates and other market factors such as liquidity from the perspective of a market participant. Loans are grouped together according to similar characteristics and are generally treated in the aggregate when applying various valuation techniques.

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity).

Revenue from contracts with customers:

All of the Company's revenues that are within the scope of ASC 606 (Revenue Recognition) are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2024 and 2023. Items outside the scope of Revenue Recognition are noted as such.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Revenue from contracts with customers, continued:

	2024	2023
Non-interest income		
Government-guaranteed lending ¹	\$ 9,934	\$ 8,421
Service charges and fees on deposit accounts	2,456	1,399
Bank-owned life insurance ¹	1,079	751
Gain on payoff of FHLB advances ¹	-	1,230
Other ²	749	328
Total non-interest income	\$ 14,218	\$ 12,129

¹Not within the scope of ASC 606

²The other category includes \$749 and \$328 of income sources that are within the scope of Revenue Recognition but determined immaterial as of December 31, 2024 and 2023, respectively.

There were no impairment losses recognized on any receivables or contract assets arising from the Company's contracts with customers during the years ended December 31, 2024 and 2023. While the Company has noninterest income related to government-guaranteed lending, changes in cash surrender value of life insurance and sales of investment securities available for sale, these are not within the scope of Revenue Recognition. Service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan and deposit fees.

Revenues generated from each of these contracts are recognized when a performance obligation is met, and each obligation is associated with a transaction tied to an account. Given each of these accounts are transactional and the related contracts are day-to-day contracts, the performance obligations on these accounts occur when the contract provision is triggered on the account, which results in the related service charge.

Based on the Company's analysis, there are no fees generated for opening an account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

As of December 31, 2024 and 2023, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligation is triggered.

In addition, during the years ended December 31, 2024 and 2023, the Company did not recognize revenue that was included in any contract liabilities, and no revenues were recognized related to performance obligations satisfied in prior reporting periods. The Company analyzes its payment streams associated with contracts with customers on a quarterly basis.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Revenue from contracts with customers, continued:

As of December 31, 2024 and 2023, the nature of the performance obligations within the contracts generating these service charges on deposit and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, management determined that there are no significant judgements associated with the recognition of revenue associated with these contracts. Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of a customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of December 31, 2024 and 2023.

Recently issued accounting pronouncements:

FASB ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures

The update requires disclosure of specific categories in the rate reconciliation and information for reconciling items that meet a quantitative threshold. In addition, the update requires disaggregated disclosure of income taxes paid and income tax expense by jurisdiction. This guidance is effective for annual periods beginning after December 31, 2024. The Company does not expect the new guidance to have a material impact on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Accounting Standards Adopted in 2023:

FASB ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326) (CECL)

On January 1, 2023, the Company adopted CECL. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Accounting Standards Adopted in 2023, continued:

FASB ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326), continued

PCD loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted CECL and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of \$1,156, net of PCD gross up, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of \$583, which is recorded within Other Liabilities. The adoption of CECL had an insignificant impact on the Company's held-to-maturity and available-for-sale securities portfolios. The Company recorded a net decrease to retained earnings of \$1,441 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

The Company adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as PCI under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption.

Regarding PCD assets, the Company elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account; contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Accounting Standards Adopted in 2023, continued:

FASB ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326), continued

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

FASB ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures

In March 2022, the FASB issued ASU 2022-02. The amendments in this ASU: (i) eliminate the previous recognition and measurement guidance for TDRs and requires an entity to apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, (ii) require new disclosures for loan modifications when a borrower is experiencing financial difficulty and (iii) require disclosures of current period gross charge-offs by year of origination in the vintage disclosures.

The Company adopted ASU 2022-02 on January 1, 2023, along with the adoption of ASC 326. As a result of adopting this ASU, the Company did not have a material impact to our consolidated results of operations or our consolidated financial position. The additional disclosures were applied prospectively.

Note 3. Business Combinations

On August 1, 2024, the Company completed the acquisition of Seneca, South Carolina-based Community First Bancorporation (CFB) and its wholly-owned subsidiary, Community First Bank Inc. Under the terms of the agreement, 3,449,466 shares of voting common stock were issued as merger consideration. Total consideration was \$54,331. Total consideration included \$3,446 in common shares issued, \$53,570 additional paid in capital, and \$761 paid in cash for stock options paid out and fractional shares. The merger allows the Company to expand its presence in the upstate of South Carolina, western North Carolina, and eastern Tennessee.

The fair value of the assets acquired was \$677,738, including \$374,991 in non-PCD loans, \$98,111 in PCD loans and \$12,380 in a core deposit intangible. No debt securities purchased in the transaction were designated PCD. Liabilities assumed were \$628,162, of which \$572,091 were deposits. As a result of the transaction, the Company recorded \$4,755 of goodwill. The amount of goodwill represents the excess purchase price over the estimated fair value of the net assets acquired. The premium paid reflects the increased market share and related synergies expected to result from the acquisition. The CFB transaction resulted in merger-related expenses of \$11,254 for the year ended December 31, 2024.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 3. Business Combinations, Continued

The following table provides the purchase price as of the acquisition date and the identifiable assets acquired and liabilities assumed at their estimated fair values:

Purchase price		\$	54,331
Assets			
Cash and due from banks	55,852		
Investment securities available-for-sale	93,669		
Loans held for sale	1,609		
Loans, net of initial PCD allowance for credit losses	473,480		
Premises and equipment	14,570		
Bank-owned life insurance	16,552		
Intangible assets	12,380		
Accrued interest receivable and other assets	9,626		
Total assets acquired	677,738		
Liabilities			
Deposits	572,091		
FHLB advances	36,699		
Subordinated debt	9,573		
Other liabilities	9,799		
Total liabilities assumed	628,162		
Fair value of net assets acquired			49,576
Goodwill recorded for CFB		\$	4,755

Supplemental Information on Acquired Loans:

PCD loans:

Par Value	\$	103,700
ACL at acquisition		(659)
Non-credit discount		(4,930)
Purchase price	\$	98,111

Non-PCD loans:

Fair value	\$	374,991
Gross contractual amounts receivable		456,132
Estimate of contractual cash flows not expected to be collected		5,056

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 4. Investment Securities

The following tables summarize the amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale and held to maturity by major classification:

December 31, 2024				
	Amortized Cost	Unrealized Loss	Unrealized Gain	Fair Value
Investment securities available for sale:				
Agency residential mortgage-backed	\$ 51,245	\$ (2,510)	\$ 28	\$ 48,763
Corporate bonds	24,200	(791)	187	23,596
Agency commercial mortgage-backed	9,625	(448)	-	9,177
Agency CMO/REMIC	8,499	(268)	-	8,231
US Treasury securities	5,196	(523)	-	4,673
Tax-exempt municipal securities	5,096	(124)	-	4,972
	<u>\$ 103,861</u>	<u>\$ (4,664)</u>	<u>\$ 215</u>	<u>\$ 99,412</u>
Investment securities held to maturity:				
Agency residential mortgage-backed	\$ 30,510	\$ (4,301)	\$ -	\$ 26,209
Agency CMO/REMIC	20,540	(4,533)	-	16,007
Taxable municipal securities	12,838	(2,185)	-	10,653
Tax-exempt municipal securities	4,860	(837)	-	4,023
US Government agency securities	1,937	(79)	-	1,858
Agency commercial mortgage-backed	1,267	(182)	-	1,085
	<u>\$ 71,952</u>	<u>\$ (12,117)</u>	<u>\$ -</u>	<u>\$ 59,835</u>
December 31, 2023				
	Amortized Cost	Unrealized Loss	Unrealized Gain	Fair Value
Investment securities available for sale:				
Agency residential mortgage-backed	\$ 23,954	\$ (1,727)	\$ 85	\$ 22,312
Corporate bonds	18,373	(1,516)	10	16,867
US Treasury securities	5,939	(584)	-	5,355
Agency commercial mortgage-backed	3,420	(336)	-	3,084
Agency CMO/REMIC	1,675	(51)	2	1,626
	<u>\$ 53,361</u>	<u>\$ (4,214)</u>	<u>\$ 97</u>	<u>\$ 49,244</u>
Investment securities held to maturity:				
Agency residential mortgage-backed	\$ 34,189	\$ (3,671)	\$ 5	\$ 30,523
Agency CMO/REMIC	22,384	(4,638)	-	17,746
Taxable municipal securities	12,867	(2,066)	-	10,801
Tax-exempt municipal securities	4,925	(771)	-	4,154
US Government agency securities	1,911	(89)	-	1,822
Agency commercial mortgage-backed	1,280	(171)	-	1,109
	<u>\$ 77,556</u>	<u>\$ (11,406)</u>	<u>\$ 5</u>	<u>\$ 66,155</u>

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 4. Investment Securities, Continued

There is no allowance for credit losses on available-for-sale securities or held to maturity securities as of December 31, 2024.

The amortized cost and fair values of investment securities available for sale and held to maturity, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2024	
	Amortized Cost	Fair Value
Investment securities available for sale with scheduled maturities:		
Within 1 year	\$ 745	\$ 723
After 1 through 5 years	45,946	43,538
After 5 years through 10 years	52,074	50,179
After 10 years	5,096	4,972
	<u>\$ 103,861</u>	<u>\$ 99,412</u>

Investment securities held to maturity with scheduled maturities:		
Within 1 year	\$ 462	\$ 461
After 1 through 5 years	7,191	6,540
After 5 years through 10 years	50,241	42,024
After 10 years	14,058	10,810
	<u>\$ 71,952</u>	<u>\$ 59,835</u>

	December 31, 2023	
	Amortized Cost	Fair Value
Investment securities available for sale with scheduled maturities:		
Within 1 year	\$ 755	\$ 727
After 1 through 5 years	28,881	26,653
After 5 years through 10 years	23,725	21,864
	<u>\$ 53,361</u>	<u>\$ 49,244</u>

Investment securities held to maturity with scheduled maturities:		
After 1 through 5 years	\$ 5,021	\$ 4,561
After 5 years through 10 years	57,275	48,351
After 10 years	15,260	13,243
	<u>\$ 77,556</u>	<u>\$ 66,155</u>

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 4. Investment Securities, Continued

The following table shows the gross unrealized losses and estimated fair value of available for sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2024 and 2023:

		December 31, 2024					
		Less than 12 months		Greater than 12 months		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment securities available for sale:							
Agency residential mortgage-backed		\$ 37,038	\$ (869)	\$ 13,054	\$ (1,641)	\$ 50,092	\$ (2,510)
Agency CMO/REMIC		7,604	(220)	627	(48)	8,231	(268)
Tax-exempt municipal securities		4,972	(124)	-	-	4,972	(124)
Agency commercial mortgage-backed		2,869	(159)	3,021	(289)	5,890	(448)
Corporate bonds		1,977	(16)	10,100	(775)	12,077	(791)
US Treasury securities		-	-	4,673	(523)	4,673	(523)
		<u>\$ 54,460</u>	<u>\$ (1,388)</u>	<u>\$ 31,475</u>	<u>\$ (3,276)</u>	<u>\$ 85,935</u>	<u>\$ (4,664)</u>
		December 31, 2023					
		Less than 12 months		Greater than 12 months		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment securities available for sale:							
Agency residential mortgage-backed		\$ 1,211	\$ (1)	\$ 15,202	\$ (1,726)	\$ 16,413	\$ (1,727)
Corporate Bonds		-	-	9,735	(1,516)	9,735	(1,516)
US Treasury securities		-	-	5,355	(584)	5,355	(584)
Agency commercial mortgage-backed		-	-	3,084	(336)	3,084	(336)
Agency CMO/REMIC		-	-	763	(51)	763	(51)
		<u>\$ 1,211</u>	<u>\$ (1)</u>	<u>\$ 34,139</u>	<u>\$ (4,213)</u>	<u>\$ 35,350</u>	<u>\$ (4,214)</u>

The following table shows the gross unrealized losses and estimated fair value of held to maturity securities aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2024 and 2023:

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 4. Investment Securities, Continued

	December 31, 2024					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment securities held to maturity :						
Taxable municipal securities	\$ 892	\$ (9)	\$ 9,761	\$ (2,176)	\$ 10,653	\$ (2,185)
Agency CMO/REMIC	-	-	16,007	(4,533)	16,007	(4,533)
Agency residential mortgage-backed	2,131	(91)	24,078	(4,210)	26,209	(4,301)
Agency commercial mortgage-backed	-	-	1,085	(182)	1,085	(182)
US Government agency securities	-	-	1,858	(79)	1,858	(79)
Tax-exempt municipal securities	-	-	4,023	(837)	4,023	(837)
	<u>\$ 3,023</u>	<u>\$ (100)</u>	<u>\$ 56,812</u>	<u>\$ (12,017)</u>	<u>\$ 59,835</u>	<u>\$ (12,117)</u>
	December 31, 2023					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment securities held to maturity :						
Taxable municipal securities	\$ 873	\$ (3)	\$ 9,928	\$ (2,036)	\$ 10,801	\$ (2,039)
Agency CMO/REMIC	-	-	17,745	(4,928)	17,745	(4,928)
Agency residential mortgage-backed	1,420	(1)	28,138	(4,683)	29,558	(4,684)
Agency commercial mortgage-backed	-	-	1,109	(245)	1,109	(245)
US Government agency securities	-	-	1,822	(178)	1,822	(178)
Tax-exempt municipal securities	-	-	4,154	(771)	4,154	(771)
	<u>\$ 2,293</u>	<u>\$ (4)</u>	<u>\$ 62,896</u>	<u>\$ (12,841)</u>	<u>\$ 65,189</u>	<u>\$ (12,845)</u>

At December 31, 2024, there were 67 available for sale debt securities and 65 held to maturity debt securities that were in an unrealized loss position. Management does not intend to sell nor believes it will be required to sell securities in an unrealized loss position prior to the recovery of its amortized cost basis. Unrealized losses at December 31, 2024 and 2023 were primarily attributable to changes in interest rates. The securities in an unrealized loss position as of December 31, 2024 and 2023 continue to perform and are expected to perform through maturity, and the issuers have not experienced significant adverse events that would call into question their ability to repay these debt obligations according to contractual terms.

As of December 31, 2024, the Company held no individual investment securities with an aggregate book value greater than 10 percent of total shareholders' equity.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 4. Investment Securities, Continued

During 2024, \$91,011 investment securities available for sale were sold that were initially acquired from the Community First Bank acquisition immediately following the acquisition. The selling price of the investment securities was considered in the estimated fair value of these securities at acquisition date. No investment securities available for sale were sold during the year ended December 31, 2023. There were no realized gains or losses on investment securities available for sale for the year ended December 31, 2024 and 2023.

As of December 31, 2023, securities with a book value of \$66,201 and a fair value of \$55,361 were pledged as collateral for public deposits and to the Bank Term Funding Program. There were no securities pledged as of December 31, 2024 to the Bank Term Funding Program.

The Company owns 36,000 shares of common stock of a North Carolina community bank. This investment is classified as a marketable equity security and has a cost basis of \$227. As of December 31, 2024 and 2023, the fair value was \$395 and \$329, respectively.

Note 5. Loans and Allowance for Credit Losses

The following table summarizes the Company's loans by type:

	2024	2023
General Bank:		
Commercial real estate - non-owner occupied	\$ 456,665	\$ 334,273
Commercial real estate - owner occupied	403,906	223,325
Construction/development	116,197	107,022
1-4 family	219,611	138,480
Commercial and industrial	190,296	111,991
Home equity	54,033	19,754
Construction/development - residential	31,296	5,955
Other consumer	134,453	2,379
Total General Bank	1,606,457	943,179
Small Business Lending:		
Commercial and industrial	111,528	76,586
Commercial real estate - owner occupied	68,290	50,611
Construction/development	24,344	14,149
Commercial real estate - non-owner occupied	9,177	10,814
Total Small Business Lending	213,339	152,160
Total Loans	\$ 1,819,796	\$ 1,095,339

As of December 31, 2024 and 2023, loans with a recorded investment of \$750,754 and \$480,739, respectively, were pledged to secure borrowings or available lines of credit with correspondent banks.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

As of December 31, 2024 and 2023, there were \$1,445 and \$0 of loans to directors and executive officers outstanding, respectively.

The following table presents an analysis of past-due loans as of December 31, 2024:

	December 31, 2024					
	30-59 days past due	60-89 days past due	90+ days past due and still accruing	Nonaccrual Loans	Current Loans	Total Loans
General Bank:						
Commercial real estate - owner occupied	\$ 232	\$ -	\$ -	\$ 1,702	\$ 401,972	\$ 403,906
Commercial real estate - non- owner occupied	1,004	-	-	-	455,661	456,665
1-4 family	1,386	259	-	827	217,139	219,611
Commercial and industrial	-	-	-	63	190,233	190,296
Other consumer	2,416	315	9	251	131,462	134,453
Home equity	764	-	-	13	53,256	54,033
Construction/development - other	-	-	-	-	116,197	116,197
Construction/development - residential	261	-	-	-	31,035	31,296
Total General Bank	6,063	574	9	2,856	1,596,955	1,606,457
Small Business Lending:						
Commercial and industrial	913	807	329	2,316	107,163	111,528
Commercial real estate - non- owner occupied	-	-	-	-	9,177	9,177
Commercial real estate - owner occupied	578	879	-	411	66,422	68,290
Construction/development	1,760	-	-	-	22,584	24,344
Total Small Business Lending	3,251	1,686	329	2,727	205,346	213,339
	<u>\$ 9,314</u>	<u>\$ 2,260</u>	<u>\$ 338</u>	<u>\$ 5,583</u>	<u>\$ 1,802,301</u>	<u>\$ 1,819,796</u>

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

	December 31, 2023					
	30-59 days past due	60-89 days past due	90+ days past due and still accruing	Nonaccrual Loans	Current Loans	Total Loans
General Bank:						
Commercial real estate - non-owner occupied	\$ -	\$ -	\$ -	\$ -	\$ 334,273	\$ 334,273
Commercial real estate owner occupied	-	-	-	-	223,325	223,325
Commercial and industrial	-	-	-	-	111,991	111,991
1-4 family	113	-	-	114	138,253	138,480
Construction/development	-	-	-	-	107,022	107,022
Home equity	-	-	-	2	19,752	19,754
Construction/development - residential	-	-	-	-	5,955	5,955
Other consumer	43	125	-	-	2,211	2,379
Total General Bank	156	125	-	116	942,782	943,179
Small Business Lending:						
Commercial real estate - owner occupied	343	177	-	85	50,006	50,611
Commercial real estate - non-owner occupied	-	-	-	-	10,814	10,814
Commercial and industrial	1,106	640	-	1,407	73,433	76,586
Construction/development	-	-	-	-	14,149	14,149
Total Small Business Lending	1,449	817	-	1,492	148,402	152,160
	<u>\$ 1,605</u>	<u>\$ 942</u>	<u>\$ -</u>	<u>\$ 1,608</u>	<u>\$ 1,091,184</u>	<u>\$ 1,095,339</u>

There was \$60 in interest income earned on one nonaccrual loan during the year ended December 31, 2024. There was \$2 in interest income earned on nonaccrual loans during the year ended December 31, 2023.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt including current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans according to credit risk. The Company uses the following general definitions for risk ratings:

Pass – These loans range from superior quality with minimal credit risk to loans requiring heightened management attention but that are still an acceptable risk and continue to perform as contracted.

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Not Rated – Not rated loans represent loans not included in the individual credit grading process due to their relatively small balances or borrower type.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2024:

	Term Loans by Year of Origination							
	2024	2023	2022	2021	2020	Prior	Revolving	Total
General Bank:								
Commercial real estate - non-owner occupied								
Pass	\$ 71,495	\$ 92,095	\$ 130,591	\$ 84,744	\$ 41,171	\$ 35,565	\$ -	\$ 455,661
Special Mention	-	-	-	-	-	1,004	-	1,004
Classified	-	-	-	-	-	-	-	-
Total commercial real estate - non-owner occupied	71,495	92,095	130,591	84,744	41,171	36,569	-	456,665
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate - owner occupied								
Pass	\$ 77,229	\$ 65,396	\$ 104,801	\$ 81,253	\$ 25,351	\$ 44,431	\$ 600	\$ 399,061
Special Mention	-	393	557	-	1,945	247	-	3,142
Classified	-	1,553	-	-	-	-	150	1,703
Total commercial real estate - owner occupied	77,229	67,342	105,358	81,253	27,296	44,678	750	403,906
Current period gross write-offs	-	-	-	-	-	-	-	-
1-4 family								
Pass	\$ 15,512	\$ 44,614	\$ 85,829	\$ 29,115	\$ 26,504	\$ 16,315	\$ 158	\$ 218,047
Special Mention	-	-	71	-	-	135	-	206
Classified	-	-	467	158	49	650	-	1,324
Not Rated	-	-	-	-	-	35	-	35
Total 1-4 family	15,512	44,614	86,367	29,273	26,553	17,135	158	219,612
Current period gross write-offs	-	-	-	-	-	151	-	151

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination						Revolving	Total
	2024	2023	2022	2021	2020	Prior		
Construction/development								
Pass	\$ 33,167	\$ 58,329	\$ 14,997	\$ 963	\$ 3,075	\$ 5,534	\$ -	\$ 116,065
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	-	-	-
Not Rated	-	-	-	132	-	-	-	132
Total Construction/development	<u>33,167</u>	<u>58,329</u>	<u>14,997</u>	<u>1,095</u>	<u>3,075</u>	<u>5,534</u>	<u>-</u>	<u>116,197</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial and industrial								
Pass	\$ 80,645	\$ 46,469	\$ 33,185	\$ 14,247	\$ 5,390	\$ 5,266	\$ 399	\$ 185,601
Special Mention	-	4,612	-	-	-	20	-	4,632
Classified	-	-	-	3	-	-	60	63
Total commercial and industrial	<u>80,645</u>	<u>51,081</u>	<u>33,185</u>	<u>14,250</u>	<u>5,390</u>	<u>5,286</u>	<u>459</u>	<u>190,296</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Home Equity								
Pass	\$ 12,737	\$ 7,776	\$ 8,185	\$ 7,194	\$ 6,719	\$ 8,316	\$ 2,870	\$ 53,797
Special Mention	-	-	-	-	-	62	61	123
Classified	-	-	-	-	-	-	88	88
Not Rated	25	-	-	-	-	-	-	25
Total Home Equity	<u>12,762</u>	<u>7,776</u>	<u>8,185</u>	<u>7,194</u>	<u>6,719</u>	<u>8,378</u>	<u>3,019</u>	<u>54,033</u>
Current period gross write-offs	-	-	-	-	-	-	-	-

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination						Revolving	Total
	2024	2023	2022	2021	2020	Prior		
Construction/development - residential								
Pass	\$ 8,474	\$ 11,642	\$ 9,948	\$ -	\$ -	\$ 970	\$ 262	\$ 31,296
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	-	-	-
Total construction/development - residential	<u>8,474</u>	<u>11,642</u>	<u>9,948</u>	<u>-</u>	<u>-</u>	<u>970</u>	<u>262</u>	<u>31,296</u>
Current period gross write-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other consumer								
Pass	\$ 9,628	\$ 33,067	\$ 31,795	\$ 19,968	\$ 17,038	\$ 22,248	\$ -	\$ 133,744
Special Mention	-	121	43	50	144	127	-	485
Classified	86	31	76	-	-	31	-	224
Total other consumer	<u>9,714</u>	<u>33,219</u>	<u>31,914</u>	<u>20,018</u>	<u>17,182</u>	<u>22,406</u>	<u>-</u>	<u>134,453</u>
Current period gross write-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176</u>	<u>-</u>	<u>176</u>
Small Business Lending:								
Commercial and industrial - GGL								
Pass	\$ 27,628	\$ 19,563	\$ 25,261	\$ 8,440	\$ 5,985	\$ 16,367	\$ 2,872	\$ 106,116
Special Mention	-	112	425	67	417	-	197	1,218
Classified	-	272	483	791	1,237	1,071	169	4,023
Not Rated	2	-	-	-	-	169	-	171
Total commercial and industrial - GGL	<u>27,630</u>	<u>19,947</u>	<u>26,169</u>	<u>9,298</u>	<u>7,639</u>	<u>17,607</u>	<u>3,238</u>	<u>111,528</u>
Current period gross write-offs	<u>-</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>2,092</u>	<u>-</u>	<u>2,117</u>

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination						Revolving	Total
	2024	2023	2022	2021	2020	Prior		
Commercial real estate - owner occupied								
Pass	\$ 11,745	\$ 9,860	\$ 14,940	\$ 18,859	\$ 5,406	\$ 3,262	\$ 86	\$ 64,158
Special Mention	-	-	885	695	-	-	1,103	2,683
Classified	-	401	609	439	-	-	-	1,449
Total Commercial real estate - owner occupied	<u>11,745</u>	<u>10,261</u>	<u>16,434</u>	<u>19,993</u>	<u>5,406</u>	<u>3,262</u>	<u>1,189</u>	<u>68,290</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Construction/development								
Pass	\$ 10,609	\$ -	\$ -	\$ 5,848	\$ -	\$ -	\$ 4,724	\$ 21,181
Special Mention	-	3,163	-	-	-	-	-	3,163
Classified	-	-	-	-	-	-	-	-
Total Construction/development	<u>10,609</u>	<u>3,163</u>	<u>-</u>	<u>5,848</u>	<u>-</u>	<u>-</u>	<u>4,724</u>	<u>24,344</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Total commercial real estate - non-owner occupied								
Pass	\$ 3,108	\$ 1,436	\$ 4,536	\$ -	\$ -	\$ 97	\$ -	\$ 9,177
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	-	-	-
Total commercial real estate - non-owner occupied	<u>3,108</u>	<u>1,436</u>	<u>4,536</u>	<u>-</u>	<u>-</u>	<u>97</u>	<u>-</u>	<u>9,177</u>
Current period gross write-offs	-	-	-	-	-	177	-	177

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

General Bank:	Term Loans by Year of Origination						Revolving	Total
	2023	2022	2021	2020	2019	Prior		
Commercial real estate - non-owner occupied								
Pass	\$ 68,808	\$ 131,680	\$ 73,263	\$ 38,280	\$ 7,335	\$ 13,585	\$ -	\$ 332,951
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	1,322	-	1,322
Total commercial real estate - non-owner occupied	<u>68,808</u>	<u>131,680</u>	<u>73,263</u>	<u>38,280</u>	<u>7,335</u>	<u>14,907</u>	<u>-</u>	<u>334,273</u>
Current period gross write-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Commercial real estate - owner occupied								
Pass	\$ 49,814	\$ 75,810	\$ 59,416	\$ 13,730	\$ 11,409	\$ 12,620	\$ 150	\$ 222,949
Special Mention	-	-	-	-	-	-	-	-
Classified	-	376	-	-	-	-	-	376
Total commercial real estate - owner occupied	<u>49,814</u>	<u>76,186</u>	<u>59,416</u>	<u>13,730</u>	<u>11,409</u>	<u>12,620</u>	<u>150</u>	<u>223,325</u>
Current period gross write-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1-4 family								
Pass	\$ 27,798	\$ 73,030	\$ 17,155	\$ 10,320	\$ 2,570	\$ 5,549	\$ 1,870	\$ 138,292
Special Mention	-	-	-	-	-	-	-	-
Classified	-	73	-	55	-	60	-	188
Total 1-4 family	<u>27,798</u>	<u>73,103</u>	<u>17,155</u>	<u>10,375</u>	<u>2,570</u>	<u>5,609</u>	<u>1,870</u>	<u>138,480</u>
Current period gross write-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination						Revolving	Total
	2023	2022	2021	2020	2019	Prior		
Commercial and industrial								
Pass	\$ 49,370	\$ 32,372	\$ 15,293	\$ 5,258	\$ 5,617	\$ 1,671	\$ 1,287	\$ 110,868
Special Mention	-	1,097	-	-	-	-	-	1,097
Classified	-	25	-	-	-	-	-	25
Not Rated	1	-	-	-	-	-	-	1
Total commercial and industrial	<u>49,371</u>	<u>33,494</u>	<u>15,293</u>	<u>5,258</u>	<u>5,617</u>	<u>1,671</u>	<u>1,287</u>	<u>111,991</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Home Equity								
Pass	\$ 7,469	\$ 3,544	\$ 4,097	\$ 2,447	\$ 459	\$ 1,736	\$ -	\$ 19,752
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	2	-	2
Total Home Equity	<u>7,469</u>	<u>3,544</u>	<u>4,097</u>	<u>2,447</u>	<u>459</u>	<u>1,738</u>	<u>-</u>	<u>19,754</u>
Current period gross write-offs	-	-	-	-	-	1	-	1
Construction/development								
Pass	\$ 67,682	\$ 23,133	\$ 12,248	\$ 295	\$ 2,432	\$ 93	\$ 43	\$ 105,926
Special Mention	-	-	-	-	-	-	-	-
Classified	668	-	-	-	-	-	-	668
Not Rated	428	-	-	-	-	-	-	428
Total Construction/development	<u>68,778</u>	<u>23,133</u>	<u>12,248</u>	<u>295</u>	<u>2,432</u>	<u>93</u>	<u>43</u>	<u>107,022</u>
Current period gross write-offs	-	-	-	-	-	-	-	-

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination						Revolving	Total
	2023	2022	2021	2020	2019	Prior		
Construction/development - residential								
Pass	\$ 4,151	\$ 1,637	\$ -	\$ -	\$ -	\$ -	\$ 167	\$ 5,955
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	-	-	-
Total construction/development - residential	<u>4,151</u>	<u>1,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167</u>	<u>5,955</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Other Consumer								
Pass	\$ 1,152	\$ 233	\$ 517	\$ 79	\$ -	\$ 269	\$ -	\$ 2,250
Special Mention	-	-	-	-	-	-	125	125
Classified	-	-	-	-	-	1	-	1
Not Rated	-	-	3	-	-	-	-	3
Total other consumer	<u>1,152</u>	<u>233</u>	<u>520</u>	<u>79</u>	<u>-</u>	<u>270</u>	<u>125</u>	<u>2,379</u>
Current period gross write-offs	-	-	-	-	-	5	-	5
Small Business Lending:								
Commercial real estate - owner occupied								
Pass	\$ 9,640	\$ 18,961	\$ 11,019	\$ 9,380	\$ 481	\$ -	\$ -	\$ 49,481
Special Mention	-	996	45	-	-	-	-	1,041
Classified	-	2	59	-	28	-	-	89
Total Commercial real estate - owner occupied	<u>9,640</u>	<u>19,959</u>	<u>11,123</u>	<u>9,380</u>	<u>509</u>	<u>-</u>	<u>-</u>	<u>50,611</u>
Current period gross write-offs	-	-	-	-	-	-	-	-

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination					Prior	Revolving	Total
	2023	2022	2021	2020	2019			
Commercial real estate - non-owner occupied								
Pass	\$ -	\$ 8,748	\$ 1,966	\$ -	\$ -	\$ 100	\$ -	\$ 10,814
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	-	-	-
Total commercial real estate - non-owner occupied	-	8,748	1,966	-	-	100	-	10,814
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial and industrial - GGL								
Pass	\$ 18,985	\$ 20,548	\$ 6,295	\$ 3,905	\$ 111	\$ 21,109	\$ 132	\$ 71,085
Special Mention	-	209	42	230	-	1,504	211	2,196
Classified	-	506	946	727	96	811	219	3,305
Total commercial and industrial - GGL	18,985	21,263	7,283	4,862	207	23,424	562	76,586
Current period gross write-offs	-	143	122	196	-	1,376	35	1,872

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated.

	December 31, 2024		
	Nonaccrual Loans With an Allowance Recorded	Nonaccrual Loans With No Allowance Recorded	Total Nonaccrual Loans
General Bank:			
Commercial real estate - owner occupied	\$ -	\$ 1,702	\$ 1,702
1-4 family	119	708	827
Home equity	13	-	13
Other consumer	251	-	251
Commercial and industrial	3	60	63
Total General Bank	386	2,470	2,856
Small Business Lending:			
Commercial and industrial	1,183	1,133	2,316
Commercial real estate - owner occupied	131	280	411
Total Small Business Lending	1,314	1,413	2,727
	\$ 1,700	\$ 3,883	\$ 5,583
	December 31, 2023		
	Nonaccrual Loans With an Allowance Recorded	Nonaccrual Loans With No Allowance Recorded	Total Nonaccrual Loans
General Bank:			
1-4 family	\$ -	\$ 114	\$ 114
Home equity	-	2	2
Total General Bank	-	116	116
Small Business Lending:			
Commercial and industrial	79	1,328	1,407
Commercial real estate - owner occupied	-	85	85
Total Small Business Lending	79	1,413	1,492
	\$ 79	\$ 1,529	\$ 1,608

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2024:

General Bank:		
Other consumer	\$	34
Commercial real estate - owner occupied		3
1-4 family		6
Home equity		1
General Bank		<u>44</u>
Small Business Lending:		
Commercial real estate - owner occupied		24
Commercial and industrial		2
Total Small Business Lending		<u>26</u>
Total Loans	\$	<u>70</u>

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan.

Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.

Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.

Home equity lines of credit are generally secured by second mortgages on residential real estate property.

Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles, and other personal property. Some consumer loans are unsecured and have no underlying collateral.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

The following table details the amortized cost of collateral dependent loans:

	December 31, 2024	December 31, 2023
General Bank:		
Commercial real estate - owner occupied	\$ 1,702	\$ -
1-4 family	820	114
Commercial and industrial	60	2
Total General Bank	2,582	116
Small Business Lending:		
Commercial and industrial	1,133	1,407
Commercial real estate - owner occupied	281	85
Total Small Business Lending	1,414	1,492
Total	\$ 3,996	\$ 1,608

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

Allowance for Credit Losses

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2024.

	December 31, 2024													
	General Bank								Small Business Lending					
	Commercial real estate – non-owner occupied	Commercial real estate – owner- occupied		Commercial and industrial	Construction / development - residential	Construction / development	Home equity	Other consumer	Commercial real estate – owner - occupied	Commercial real estate – non-owner occupied	Commercial and industrial - GGL	Construction / development - GGL	Total	
Beginning balance	\$ 2,454	\$ 1,534	\$ 1,108	\$ 897	\$ 51	\$ 1,012	\$ 174	\$ 31	\$ 1,025	\$ 164	\$ 3,026	\$ 467	\$ 11,943	
Initial PCD ACL from CFB Acquisition	136	214	141	34	32	17	15	58	3	-	6	3	659	
Charge-offs	-	-	(151)	-	-	-	-	(176)	(177)	-	(2,117)	-	(2,621)	
Recoveries	1	-	29	3	-	-	-	13	12	-	69	-	127	
Provision for (recovery of) credit losses	(406)	338	981	925	1,266	(505)	68	3,234	680	(6)	3,148	(133)	9,590	
Ending balance	\$ 2,185	\$ 2,086	\$ 2,108	\$ 1,859	\$ 1,349	\$ 524	\$ 257	\$ 3,160	\$ 1,543	\$ 158	\$ 4,132	\$ 337	\$ 19,698	

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

Allowance for Credit Losses, Continued

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023.

	December 31, 2023														
	General Bank									Small Business Lending					
	Commercial real estate – non-owner occupied	Commercial real estate – owner- occupied	1-4 family	Commercial and industrial	Construction / development	Construction/ development - residential	Home equity	Other consumer		Commercial real estate – non-owner occupied	Commercial real estate – owner - occupied	Commercial and industrial	Construction/ development - GGL	Total	
Beginning balance	\$ 1,410	\$ 1,047	\$ 750	\$ 659	\$ 520	\$ 89	\$ 76	\$ 16		\$ 212	\$ 643	\$ 2,430	\$ 876	\$ 8,728	
Adjustment to allowance for adoption of ASU 2016-13	221	99	(92)	(11)	337	(7)	47	-		130	(16)	344	104	1,156	
Charge-offs	-	-	-	-	-	-	(1)	(5)		-	-	(1,872)	-	(1,878)	
Recoveries	-	-	26	7	-	-	1	-		-	18	35	-	87	
Provision for (recovery Of) credit losses	823	388	424	242	155	(31)	51	20		(178)	380	2,089	(513)	3,850	
Ending balance	\$ 2,454	\$ 1,534	\$ 1,108	\$ 897	\$ 1,012	\$ 51	\$ 174	\$ 31		\$ 164	\$ 1,025	\$ 3,026	\$ 467	\$ 11,943	

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 5. Loans and Allowance for Credit Losses, Continued

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

There were no modifications made to borrowers experiencing financial difficulty for the year ended December 31, 2024 or 2023.

For all periods presented, the Company used a one-year reasonable and supportable forecast period. Expected credit losses were estimated using a regression model for each segment based on historical data from peer banks combined with the Federal Reserve's baseline economic forecast to predict the change in credit losses. For periods beyond the reasonable and supportable forecast period of one year, the Company reverted to historical credit loss information on a straight line basis

At December 31, 2024, the Federal Reserve's baseline forecast was slightly better than at December 31, 2023. However, the Company updated the loss driver analysis and peer data used to develop loss rates which resulted in a higher quantitative reserve. Additionally, charge offs increased from December 31, 2023 to December 31, 2024 resulting in a higher quantitative ACL level at December 31, 2024. At December 31, 2024, the Company applied qualitative adjustments to the model output for all loans, with an additional qualitative reserve for CRE and GGL loans. Compared to December 31, 2023, the allowance increased due primarily to the acquisition of CFB and increased loan volume as a result of the acquisition.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 6. Premises and Equipment

A summary of premises and equipment as of December 31, 2024 and 2023 is presented in the table below:

	2024	2023
Land	\$ 4,475	\$ 836
Building and leasehold improvements	31,298	18,658
Furniture and equipment	6,233	2,806
Less accumulated depreciation	(4,842)	(3,593)
	<u>\$ 37,164</u>	<u>\$ 18,707</u>

Depreciation on premises and equipment, which is recorded in occupancy and equipment expense, totaled \$2,327 and \$1,698 for the years ended December 31, 2024 and 2023, respectively.

As of December 31, 2024 and 2023, buildings and leasehold improvements included \$11,471 and \$10,457, respectively, related to the Company's right of use lease assets.

Note 7. Leases

The following table summarizes the Company's lease assets and liabilities as of December 31, 2024 and 2023:

Description	Balance Sheet Classification	2024	2023
Assets:			
Finance	Premises and equipment, net	\$ 11,471	\$ 10,457
Operating	Accrued interest receivable and other assets	3,467	1,866
Total leased assets		<u>\$ 14,938</u>	<u>\$ 12,323</u>
Liabilities:			
Finance	Lease liability	\$ 12,258	\$ 11,187
Operating	Accrued interest payable and other liabilities	3,456	1,861
Total lease liabilities		<u>\$ 15,714</u>	<u>\$ 13,048</u>

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 7. Leases, Continued

The following table provides information regarding the minimum lease payments in future periods that will reduce lease-related liabilities outstanding as of December 31, 2024:

	Finance Leases	Operating Leases	Total
2025	\$ 1,427	\$ 584	\$ 2,011
2026	1,553	527	2,080
2027	1,592	506	2,098
2028	1,632	391	2,023
2029	1,676	378	2,054
Thereafter	6,442	1,864	8,306
Total minimum lease payments	14,322	4,250	18,572
Discount	(2,064)	(794)	(2,858)
Lease liability	\$ 12,258	\$ 3,456	\$ 15,714

The following table provides the weighted average remaining lease term (in years) and the weighted average discount rate of finance and operating leases as of December 31, 2024:

	Finance Leases	Operating Leases
Weighted average remaining lease term in years	8.7	8.1
Weighted average discount rate	3.54%	4.73%

Note 8. Goodwill and Other Intangible Assets

The table below summarizes the changes in carrying amounts of goodwill and other intangible assets (core deposit intangible) for the periods presented:

	Goodwill	Other intangible assets
Balance at December 31, 2022	\$ 7,016	\$ 126
Accumulated amortization	-	(111)
Balance at December 31, 2023	7,016	15
Goodwill and intangible assets related to CFB acquisition	4,755	12,380
Accumulated amortization	-	(1,021)
Balance at December 31, 2024	\$ 11,771	\$ 11,374

Goodwill represents the excess of the purchase price over the fair value of acquired net assets under the acquisition method of accounting. The acquisition that generated the Company's goodwill was a nontaxable event and, as a result, there is no tax basis in the goodwill, and none of the goodwill is deductible for tax purposes.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 8. Goodwill and Other Intangible Assets, Continued

Goodwill is evaluated for impairment annually or more frequently if events occur or circumstances change that may indicate that impairment exists. The most recent goodwill impairment evaluation was performed as of December 31, 2024. No goodwill impairment was recorded during 2024 or 2023.

The value of other intangible assets was determined using the present value of the difference between a market participant's cost of obtaining alternative funds and the cost to maintain the acquired deposit base. The other intangible assets are amortized over a seven-year period using an accelerated method. Other intangible assets are evaluated for impairment if events and circumstances indicate impairment may exist.

The following table presents estimated future amortization expense for the Company's other intangible assets:

2025	\$	2,241
2026		1,995
2027		1,750
2028		1,504
2029		1,258
Thereafter		2,626
	\$	<u>11,374</u>

No impairment charges were recorded for other intangible assets during 2024 or 2023.

SBA servicing assets, which are included in other assets, represent the present value of projected future servicing income when an SBA loan is sold servicing retained. The SBA servicing asset was \$5,529, net of \$547 valuation allowance, at December 31, 2024, and \$4,641, net of \$674 valuation allowance at December 31, 2023. The SBA servicing asset is amortized over the servicing life of the loan and is subject to impairment based on changes in servicing values.

Note 9. Income Taxes

The significant components of the provision for income taxes for the years ended December 31, 2024 and 2023 are as follows:

	2024	2023
Current tax provision:		
Federal	\$ 587	\$ 3,724
State	10	436
Total current tax expense	<u>597</u>	<u>4,160</u>
Deferred tax provision:		
Federal	1,520	(987)
State	(351)	(149)
Total deferred tax benefit	<u>1,169</u>	<u>(1,136)</u>
Total income tax expense	<u>\$ 1,766</u>	<u>\$ 3,024</u>

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 9. Income Taxes, Continued

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 21 percent for 2024 and 2023 to income before income taxes is summarized below:

	2024	2023
Income tax expense at federal statutory rate	\$ 1,604	\$ 2,871
Increase (decrease) resulting from:		
State income taxes, net of federal benefit	152	209
Bank-owned life insurance	(227)	(158)
Stock-based compensation	(52)	(52)
Nondeductible expenses	216	163
Other	73	(9)
Total income tax expense	\$ 1,766	\$ 3,024

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of deferred taxes at December 31, 2024 and 2023 are as follows:

	2024	2023
Deferred tax asset relating to:		
Allowance for credit losses	\$ 4,526	\$ 2,744
Unfunded commitments	590	473
Deferred compensation	792	442
Stock-based compensation	518	594
Unrealized loss on investment securities available for sale	1,658	1,487
Amortization of intangible assets	97	111
Acquisition accounting	2,275	-
Other	144	15
Total deferred tax assets	10,600	5,866
Deferred tax liabilities relating to:		
Premises and equipment	(2,798)	(1,127)
Other	-	(4)
Total deferred tax liabilities	(2,798)	(1,131)
Total deferred tax asset, net	\$ 7,802	\$ 4,735

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 9. Income Taxes, Continued

The Company's net deferred tax asset was \$7,802 and \$4,735 at December 31, 2024 and 2023, respectively. In evaluating whether it will realize the full benefit of the net deferred tax asset, the Company evaluated both positive and negative evidence, including among other things recent earnings trends, projected earnings, and asset quality. No valuation allowance was recorded at December 31, 2024.

Significant negative trends in credit quality, losses from operations or other factors could impact the realization of the deferred tax asset in the future.

The Company's policy is to report interest and penalties, if any, related to uncertain tax positions in income tax expense. As of December 31, 2024 and 2023, the Company had no uncertain tax positions.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2021.

Note 10. Deposits

The scheduled maturities of time deposits as of December 31, 2024 are presented below:

	Less than \$250	\$250 and Greater	Total
2025	\$ 365,778	\$ 59,040	\$ 424,818
2026	6,357	890	7,247
2027	10,855	-	10,855
2028	535	-	535
2029	475	-	475
Time deposit unamortized fair value adjustment	(274)	-	(274)
CDARS in process	653	-	653
Total	\$ 384,379	\$ 59,930	\$ 444,309

Brokered deposits totaled \$204,286 and \$109,545 as of December 31, 2024 and 2023, respectively. Time deposits, excluding brokered deposits, in excess of the FDIC insurance limit of \$250 totaled \$59,930 and \$16,679 as of December 31, 2024 and 2023, respectively.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 11. Borrowings

A summary of FHLB advances as of December 31, 2024 and 2023 is presented below:

Description	Interest Rate	Maturity Date	2024	2023
Daily Rate Credit	5.57%	June 28, 2024	-	30,000
Fixed Rate Credit	5.32%	July 22, 2024	-	20,000
Fixed Rate Credit	5.30%	January 14, 2025	10,000	-
Daily Rate Credit	4.57%	June 30, 2025	55,000	-
Fixed Rate Credit	4.33%	November 14, 2025	15,000	-
Fixed Rate Credit	4.40%	October 20, 2025	15,000	-
Fixed Rate Credit	4.59%	November 5, 2027	5,000	-
Convertible	4.56%	April 30, 2026	5,000	-
Convertible	4.46%	May 20, 2026	5,000	-
Convertible	4.56%	May 21, 2026	5,000	-
Convertible	4.72%	May 21, 2026	5,000	-
Convertible	4.27%	December 14, 2026	5,000	-
Convertible	4.00%	June 17, 2026	5,000	-
Unamortized purchase accounting adjustments			164	-
			<u>\$ 130,164</u>	<u>\$ 50,000</u>

As of December 31, 2024, the Company had access to an additional \$156,138 at the FHLB on a secured basis. As of December 31, 2024, the Company also had unused unsecured federal funds lines of credit with various counterparty banks totaling \$90,000.

Other borrowings consisted of subordinated debt of \$9,708 with a fixed interest rate of 5.125%. The subordinated debt has a maturity date of November 2030, with an option to redeem in November 2025.

Note 12. Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the Company's maximum exposure. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit, which totaled \$412,658 and \$290,364 at December 31, 2024 and 2023, respectively, represent agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 12. Commitments and Contingencies, Continued

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., the commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans and are discussed in Note 5. The allowance for credit losses for unfunded loan commitments of \$2,570 and \$2,060 at December 31, 2024 and December 31, 2023, respectively, is separately classified on the balance sheet.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2024.

Beginning Balance, December 31, 2023	\$	2,060
Reserve on acquired unfunded loan commitments		189
Provision for unfunded commitments		321
Balance, December 31, 2024	\$	2,570

Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on a credit evaluation of the borrower. Collateral obtained varies but may include real estate, equipment, stocks, bonds, and certificates of deposit.

Note 13. Stock-Based Compensation and Retirement Plans

Restricted Stock

The Company amended and restated the 2019 Omnibus Incentive Plan on June 20, 2023. The amended and restated plan authorizes an additional 500,000 shares in addition to the original 1,205,346 shares of the Company's voting common stock to be awarded under various incentive programs. Pursuant to authority under the 2019 Omnibus Incentive Plan, the Company adopted a restricted stock program that allows shares of stock to be awarded to employees. All shares vest over a five-year period.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 13. Stock-Based Compensation and Retirement Plans, Continued

The following table provides information on the number of shares of restricted stock awarded in each of the years ended December 31, 2024 and 2023, the aggregate number of shares awarded as of December 31, 2024 and 2023, the restricted stock expense recorded during the years ended December 31, 2024 and 2023 and the unrecognized compensation cost for non-vested restricted stock awards as of December 31, 2024 and 2023:

	Restricted Stock	Weighted Average Grant Date Fair Value
December 31, 2022	344,500	\$ 17.82
Granted	74,350	17.71
Vested	(38,000)	17.82
December 31, 2023	380,850	17.71
Granted	269,291	16.11
Vested	(146,500)	15.66
Forfeited	(19,000)	15.51
December 31, 2024	484,641	\$ 16.11

The vesting schedule of unrecognized compensation cost related to non-vested restricted stock awards are below:

2025	\$ 1,598
2026	1,446
2027	1,093
2028	835
2029	375
Total	<u>\$ 5,347</u>

Defined Contribution Plans

The Company sponsors a 401(k) plan for substantially all employees. Participants may make voluntary contributions resulting in salary deferrals in accordance with Section 401(k) of the Internal Revenue Code. The plan provides for employer contributions of up to 4 percent of pre-tax salary contributed by each participant. Employer contributions to the 401(k) plans totaled \$629 for the year ended December 31, 2024, compared to \$537 for 2023.

Supplemental Executive Retirement Plans

As of December 31, 2024 and 2023, the Company had a \$2,428 and \$1,923 accrued liability related to retirement plans, respectively, included in accrued interest payable and other liabilities on the balance sheet. The Company had \$902 and \$907 in accrued liability as of both December 31, 2024 and 2023 related to obligations to two former employees, representing the present value of the future payments expected to be made pursuant to the terms of a non-qualified plan.

Dogwood State Bank

Notes to Financial Statements

For the years ended December 31, 2024 and 2023

(dollars in thousands, except per share information)

Note 13. Stock-Based Compensation and Retirement Plans, Continued

Additionally, in 2021 the Company implemented a long-term retention agreement with three current executives and has accrued an additional \$1,446 and \$1,016 as of December 31, 2024 and 2023, respectively, in accrued liability related to the present value of the future payments expected to be made to these executives under the new agreement. The long-term retention agreements provide for specified cash retention payment amounts for 10 years generally commencing on the date that the Executive attains age 62 provided that the Executive remains employed by the Company.

Note 14. Shareholders' Equity

As a result of the CFB acquisition in August 2024, the Company issued 3,449,466 shares of voting common stock at a price of \$15.53 per share, resulting in an additional \$53,570 of new capital.

During the first quarter of 2023, the Company completed a secondary offering of its voting common stock in a private placement. The Company issued a total of 819,333 shares at an offering price of \$20 per share, resulting in an additional \$16,357 of new capital.

Note 15. Earnings Per Share

The following table shows the calculation of basic and diluted net income per common share as of December 31, 2024 and 2023:

	2024	2023
Net income available to common shareholders'	\$ 5,873	\$ 10,648
Net income per common share:		
Basic	\$ 0.36	\$ 0.75
Diluted	\$ 0.35	\$ 0.72
Weighted average common shares		
Basic	16,275	14,152
Effect of dilutive securities:		
Restricted stock	451	356
Warrants	-	331
Diluted	16,726	14,839

Note 16. Fair Value

Fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques.

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Note 16. Fair Value, Continued

Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Fair value estimates may not be realized in an immediate settlement, and the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Cash and cash equivalents:

The carrying amount reported in the balance sheets for cash and cash equivalents approximates fair value. The fair value of cash and cash equivalents is measured using level 1 inputs.

Investment securities available for sale:

Fair values are determined in the manner described above. The fair value of investment securities available for sale is measured using level 2 inputs.

Investment securities held to maturity:

Fair values are determined in the manner described above. The fair value of investment securities held to maturity is measured using level 2 inputs.

Marketable equity securities:

Fair values are based upon quoted market prices. The fair value of investment securities available for sale is measured using level 1 inputs.

Loans held for sale:

Fair values of SBA loans held for sale are based on estimated instrument-level gains or losses to be realized upon sale, which management consider to be level 2 inputs.

Loans:

The fair value of loans represents the amount at which the loans of the Company could be exchanged on the open market, based upon the current lending rate for similar types of lending arrangements discounted over the remaining life of the loans. For fixed rate loans and for variable rate loans with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the cash flow analysis. The fair value of loans is measured using level 2 inputs. The fair value of collateral dependent loans relies on level 3 inputs.

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Note 16. Fair Value, Continued

Deposits:

The fair value of time deposits is based on discounted cash flows using current market rates applied to the cash flow analysis for each time deposit. Other non-maturity deposits are reported at their carrying values. The fair value of deposits is measured using level 2 inputs.

Short-term borrowings:

Fair values of short-term borrowings (FHLB advances and subordinated debt) are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. Estimated maturity dates are also included in the calculation of fair value for these borrowings. The fair value of short-term borrowings is measured using level 2 inputs.

Off-balance sheet instruments:

Off-balance sheet instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Because of the uncertainty involved in attempting to assess the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market and the wide diversity of fee structures, the Company does not believe it is meaningful to provide an estimate of fair value for these instruments.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2024 and 2023 were as follows:

	Fair Value				
	December 31, 2024				
	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Total cash and cash equivalents	\$ 86,194	\$ 86,194	\$ -	\$ -	\$ 86,194
Investment securities available for sale	99,412	-	99,412	-	99,412
Investment securities held to maturity	71,952	-	59,835	-	59,835
Marketable equity securities	395	395	-	-	395
Loans held for sale	6,733	-	6,733	-	6,733
Loans	1,800,098	-	1,762,948	5,583	1,768,531
Deposits	1,809,395	-	1,807,652	-	1,807,652
FHLB advances	130,164	-	130,164	-	130,164
Subordinated debt	9,708	-	9,708	-	9,708

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Note 16. Fair Value, Continued

	December 31, 2023				Total
	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Total cash and cash equivalents	\$ 128,665	\$ 128,665	\$ -	\$ -	\$ 128,665
Investment securities available for sale	49,244	-	49,244	-	49,244
Investment securities held to maturity	77,556	-	66,155	-	66,155
Marketable equity securities	329	329	-	-	329
Loans held for sale	15,274	-	15,274	-	15,274
Loans	1,083,396	-	1,028,762	1,608	1,030,370
Deposits	1,194,279	-	1,193,392	-	1,193,392
FHLB advances	50,000	-	50,000	-	50,000

Recurring – Investment Securities Available for Sale:

Investment securities available for sale are reported at fair value utilizing measurements from independent third-party sources, which are level 2 inputs. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other inputs.

Recurring – loans held for sale:

Loans held for sale are reported at fair value utilizing projected sale price guidance, which is a level 2 input. The fair value measurements consider observable data that may include dealer quotes, market spreads, live trading levels, trade execution data, among other inputs.

The following tables summarize the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2024 and December 31, 2023, segregated by the level of the valuation inputs within the fair value hierarchy.

	December 31, 2024			Total
	Level 1	Level 2	Level 3	
Agency mortgage-backed	\$ -	\$ 48,763	\$ -	\$ 48,763
Agency CMO/REMIC	-	8,231	-	8,231
Corporate bonds	-	23,596	-	23,596
US Treasury securities	-	4,673	-	4,673
Agency commercial mortgage-backed	-	9,177	-	9,177
Municipal securities	-	4,972	-	4,972
Marketable equity security	395	-	-	395
Loans held for sale	-	6,733	-	6,733

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Note 16. Fair Value, Continued

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Agency mortgage-backed	\$ -	\$ 22,312	\$ -	\$ 22,312
Agency CMO/REMIC	-	1,626	-	1,626
Corporate bonds	-	16,867	-	16,867
US Treasury securities	-	5,355	-	5,355
Agency commercial mortgage-backed	-	3,084	-	3,084
Marketable equity security	329	-	-	329
Loans held for sale	-	15,274	-	15,274

Non recurring – loans held for investment:

The Company does not record loans at fair value on a recurring basis. However, from time to time, management concludes that payment of principal and interest will not be made in accordance with the contractual terms of the loan agreement. Management individually reviews these loans using one of several methods, including appraised collateral value and /or tax assessed value, liquidation value and discounted expected cash flow. Those loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. For real estate collateral, the Company frequently obtains appraisals prepared by external professional appraisers and applies of 10 percent depending on various factors including the type of property, condition, and location. For equipment and other collateral, a discount of up to the advance rate as defined by the policy.

In certain instances, the Company prepares internally generated valuations from on-site inspections, third-party valuation models or other information. Due to the significance of the unobservable market inputs and assumptions, as well as the absence of a liquid secondary market for most loans, these loans are classified as Level 3. The Company had \$3,996 and \$1,650 in collateral dependent loans as of December 31, 2024 and 2023.

Non recurring – other real estate owned

Other real estate owned is held for sale and is initially recorded at fair value less costs to sell upon foreclosure. After foreclosure, valuations are periodically performed, and the assets are carried at the lower of carrying amount or fair value less cost to sell. The Company had \$103 and \$0 in other real estate owned as of December 31, 2024 and 2023, respectively.

Note 17. Regulatory Capital Requirements

The Company is required to maintain reserve and clearing balances with the Federal Reserve Bank in the form of vault cash or deposits.

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Notes to Financial Statements

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Note 17. Regulatory Capital Requirements, Continued

Banking regulators have established various ratios to monitor capital adequacy. Failure to comply with these capital adequacy requirements may affect various bank activities including the ability to undertake new business initiatives such as acquisitions and branch expansion, access to funding and cost of new business initiatives, the ability to pay dividends, the ability to repurchase shares or other capital instruments, the cost of deposit insurance, and the level of regulatory oversight.

Based on current regulatory guidance, banks are required to maintain a common equity tier 1 ratio of 4.50 percent, a tier 1 leverage ratio of 4.00 percent, a tier 1 risk-based capital ratio of 6.00 percent and a total risk-based capital ratio of 8.00 percent. Current regulations also require creation and maintenance of a capital conservation buffer in addition to the regulatory minimum capital requirements. The capital conservation buffer is 2.50 percent.

As of December 31, 2024 and 2023, the Company exceeded all applicable capital adequacy requirements.

2024

	Actual		Minimum to be adequately capitalized		Minimum to be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1	\$ 211,062	10.97%	\$ 86,618	4.50%	\$ 125,115	6.50%
Tier 1 leverage	211,062	9.84%	85,769	4.00%	107,211	5.00%
Tier 1 risk-based capital	211,062	10.97%	115,491	6.00%	153,988	8.00%
Total risk-based capital	243,038	12.63%	153,988	8.00%	192,484	10.00%

2023

	Actual		Minimum to be adequately capitalized		Minimum to be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1	\$ 159,405	13.47%	\$ 53,255	4.50%	\$ 76,923	6.50%
Tier 1 leverage	159,405	11.05%	57,726	4.00%	72,157	5.00%
Tier 1 risk-based capital	159,405	13.47%	71,006	6.00%	94,675	8.00%
Total risk-based capital	173,409	14.65%	94,675	8.00%	118,343	10.00%

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Note 18. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Management has reviewed the events occurring through March 28, 2025, the date the financial statements were issued. No additional subsequent events occurred requiring accrual or disclosure.