



PRESS RELEASE

FOR IMMEDIATE RELEASE:

Aquesta Financial Holdings, Inc Announces Results of Operations for the Second Quarter of 2020

CORNELIUS, NC – July 29, 2020 -- Aquesta Financial Holdings, Inc and subsidiaries (“Aquesta”) (OTC Market symbol AQFH) – including its subsidiary Aquesta Bank announced today net income for the second quarter of 2020 (three month period ending June 30, 2020). For the second quarter of 2020, Aquesta had unaudited net income of \$1,419,000 (26 cents per share) compared to second quarter of 2019 net income of \$1,188,000 (22 cents per share). Thus, earnings grew at 19.4 percent for the second quarter of 2020 compared to the second quarter of 2019.

Jim Engel, CEO and President of Aquesta, said “It has been another solid quarter for loan and deposit growth at Aquesta. We continue to perform well despite the continuing negative effects the COVID-19 pandemic is having on the global economy. Our commitment to our customers and communities is apparent through our proactive efforts to provide all available assistance and resources to those in need. These efforts began in the first quarter of 2020 and continued into the second quarter, culminating in Aquesta providing 1,046 Payroll Protection Program (“PPP”) loans totaling \$147.1 million. Our PPP efforts made Aquesta one of the leading community banks participating in PPP lending and garnered recognition from national publications, including USA Today. I am proud of the Aquesta Team’s efforts and we look forward to continuing to serve our customers, communities and shareholders.”

Key Highlights

- Total assets were \$678.3 million representing the first time Aquesta has exceeded \$600 million in total assets. This growth was driven by PPP loan originations critical to the communities and businesses we serve.
- Approximately 16,000 families helped by Aquesta’s PPP efforts.
- Total loan growth of \$143.1 million for the first six months of 2020 (annualized 69.0 percent). Loan growth was due to PPP loans as Aquesta focused resources on helping our communities. The increase in total loan portfolio size is expected to be temporary and will decrease as the PPP loans are forgiven and/or paid down.
- Total core deposit growth of \$77.6 million for the first six months of 2020 (annualized 41.6 percent). Core deposit growth was due to the large number of new deposit customers brought to Aquesta by PPP loans and organic growth.
- Earnings growth for the second quarter of 2020 increased by 19.4 percent compared to the second quarter of 2019.
- Significant increase to the Allowance for Loan and Lease Losses (“ALLL”) of \$ 808,000 for the quarter for potential COVID-19 related loan losses.

Solid Balance Sheet Growth

At June 30, 2020, Aquesta’s total assets were \$678.3 million compared to \$523.0 million at December 31, 2019. Total loans were \$558.2 million at June 30, 2020 compared to \$415.1 million at December 31, 2019. Second quarter loan growth was driven by PPP loan production, which totaled \$147.1 million. Core deposits were \$451.2 million at June 30, 2020 compared to \$373.6 million at December 31, 2019.

Return on Average Assets (“ROA”) as of June 30, 2020 was 0.77% compared to 0.89% as of June 30, 2019. Decrease in ROA is primarily related to the temporary increase in assets related to the influx of PPP loans with a maximum yield of 1% as mandated by the CARES Act.

Asset Quality

Nonperforming assets were at \$10.5 million as of June 30, 2020 compared to \$1.2 million as of December 31, 2019. Aquesta had \$8.2 million in non-accrual loans as of June 30, 2020 compared to \$1.2 million as of December 31, 2019. The increase of both nonperforming assets and non-accrual loans is primarily related to a small concentration of customers. Aquesta held no Other Real Estate Owned (i.e., "OREO" or foreclosed property) at the end of the 2nd quarter 2020 or at the end of the 4th quarter 2019.

Net Interest Income

Net interest income was \$8.7 million for the six months ended June 30, 2020 compared to \$8.1 million for the six months ended June 30, 2019. This is an increase of \$656 thousand or 8.14%. The increase in net interest income is associated with an increased reliance on lower cost core deposits replacing higher cost funding. Additionally, Aquesta was able to accrete \$347 thousand of PPP fees into interest income for PPP loans that were held during the quarter. Aquesta deferred \$3.7 million of PPP fee income which will be recognized in subsequent quarters as PPP loans are forgiven or paid down.

Provision for Loan Losses

The provision for loan losses was \$1.1 million for the six months ended June 30, 2020 compared to \$205 thousand for the six months ended June 30, 2019. This is an increase of \$928 thousand. The increase is due to the ongoing COVID-19 pandemic and management's estimation of potential losses in the loan portfolio.

As of June 30, 2020, there were 128 loans on deferral totaling \$90.0 million in unpaid principal balance. Of these, 62 loans representing \$37.9 million in unpaid principal balance are SBA guaranteed loans not associated with the PPP program.

The ratio of ALLL to total loans is 0.89% as of June 30, 2020. The ratio of ALLL to total loans, excluding PPP loans, is 1.20% as of June 30, 2020. The ratio of ALLL to total loans, excluding PPP loans and balances guaranteed by the SBA, is 1.35% as of June 30, 2020.

Non Interest Income

Non interest income was \$1.3 million for the six months ended June 30, 2020 compared to \$1.4 million for the six months ended June 30, 2019. The decrease in non-interest income relates to bank owned life insurance death benefits recognized in the 1st quarter 2019 of \$127 thousand with no corresponding amount in the current period.

Non Interest Expense

Non interest expense was \$5.9 million for the six months ended June 30, 2020 compared to \$6.4 million for the six months ended June 30, 2019.

Personnel expense was at \$3.1 million as of June 30, 2020 compared to \$3.8 million as of June 30, 2019. The decrease in personnel expense is due to the offsetting of salary related costs with PPP origination fees pursuant to ASC 310-20 stemming from the closing and funding of PPP loans.

Occupancy expense increased by \$82 thousand for the six months ended June 30, 2020 compared to the six months ending June 30, 2019. The increase is due to the addition of the Rae Farms branch and the adoption of new lease accounting standards which required the recognition of additional rental expense in 2020.

Aquesta had gains on the sale of OREO of \$13 thousand for the six months ended June 30, 2020 compared to gains on sales of \$18 thousand for the six months ended June 30, 2019.

Below are the financial highlights for comparison:

Aquesta Financial Holdings, Inc.

Select Financial Highlights

(Dollars in thousands, except per share data)

	<u>06/30/20</u>	<u>12/31/19</u>
	(unaudited)	(audited)
Period End Balance Sheet Data:		
Loans	\$ 558,170	\$ 415,071
Allowance for loan and lease losses	4,944	3,868
Investment securities	36,294	56,688
Total assets	678,305	523,010
Core deposits	451,200	373,557
CDs and IRAs	68,453	46,413
Shareholders equity	56,210	53,367
Ending shares outstanding*	5,473,729	5,450,585
Book value per share*	10.27	9.79
Tangible book value per share*	10.27	9.79

*assumes conversion of Series A Convertible Perpetual Preferred Stock

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	06/30/20	06/30/19	06/30/20	06/30/19
	(unaudited)	(audited)	(unaudited)	(audited)
Income and Per Share Data:				
Interest income	\$ 5,668	\$ 5,632	\$ 11,344	\$ 11,077
Interest expense	1,208	1,474	2,627	3,016
Net interest income	<u>4,460</u>	<u>4,158</u>	<u>8,717</u>	<u>8,061</u>
Provision for loan losses	<u>808</u>	<u>35</u>	<u>1,133</u>	<u>205</u>
Net interest income after provision for loan losses	<u>3,652</u>	<u>4,123</u>	<u>7,584</u>	<u>7,856</u>
Non interest income	657	612	1,287	1,389
Non interest expense	<u>2,503</u>	<u>3,212</u>	<u>5,947</u>	<u>6,374</u>
Income before income taxes	<u>1,806</u>	<u>1,523</u>	<u>2,924</u>	<u>2,871</u>
Income tax expense	<u>387</u>	<u>335</u>	<u>624</u>	<u>616</u>
Net Income	<u><u>1,419</u></u>	<u><u>1,188</u></u>	<u><u>2,300</u></u>	<u><u>2,255</u></u>

	For the three months ended		For the six months ended	
	06/30/20 (unaudited)	06/30/19 (audited)	06/30/20 (unaudited)	06/30/19 (audited)
Earnings per share - basic*	\$ 0.26	\$ 0.22	\$ 0.42	\$ 0.44
Earnings per share - diluted*	0.25	0.21	0.40	0.41
Weighted average shares - basic*	5,473,727	5,412,195	5,469,360	5,170,857
Weighted average shares - diluted*	5,749,853	5,751,734	5,787,407	5,515,013

* assumes conversion of Series A Convertible Perpetual Preferred Stock

	06/30/20 (unaudited)	12/31/19 (audited)
Select performance ratios:		
Return on average assets	0.77%	0.89%
Return on average equity	8.40%	10.03%
Asset quality data:		
90 days or more and accruing	\$ 2,371	\$ -
Non accrual loans	8,179	1,192
Other real estate loans	-	-
Total non performing assets	<u>10,550</u>	<u>1,192</u>
Troubled debt restructurings	\$ 68	\$ 84
Non performing assets / total assets	1.56%	0.23%
Allowance for loan losses / total loans	0.89%	0.93%

Aquesta Financial Holdings, Inc. is the holding company to its wholly owned subsidiary, Aquesta Bank. Aquesta Bank is a full-service community bank headquartered in Cornelius, North Carolina with eight branches in the Charlotte, Lake Norman and Wilmington, North Carolina areas and loan production offices in Raleigh, North Carolina, as well as Greenville and Charleston, South Carolina.

For additional information, please contact Kristin Couch (Executive Vice President and Chief Financial Officer) at 704-439-4343 or visit us online at www.aquesta.com.

Information in this press release may contain forward looking statements that might involve risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties include without limitation, the effects of future economic conditions, governmental fiscal and monetary policies, legislative and regulatory changes, and changes in interest rates.