



February 26, 2021

To our Shareholders:

Please find attached the unaudited financial results for the quarter ended December 31, 2020 for CoastalSouth Bancshares, Inc. (the "Company" or "COSO"), the parent company of Coastal States Bank ("CSB" or the "Bank").

2020 unfolded as a year that was unlike anything that could have been expected, but CSB continued to thrive despite the disruption caused by the COVID-19 pandemic. During the year, CSB was able to support our customers, communities, and employees through the following ways:

- Donations of over \$156 thousand to charitable organizations were made by the CSB Community Commitment, a non-profit fund which is fueled by donations from our Board of Directors and employees and matched by the Company.
- Supporting small businesses through the Paycheck Protection Program ("PPP") where we originated 779 first draw loans totaling \$158 million to help protect over 17,000 jobs during 2020.
- Mobilizing much of our workforce to work remotely in order to provide continuous service to our customers, while maintaining the safety of our team members and our communities.
- Modifying our branch and office procedures to minimize exposure to COVID-19 for our employees and customers and providing incentive payments to our frontline customer facing employees who demonstrated exceptional customer service.

During the fourth quarter, the Company's momentum continued as deposits grew \$34.6 million to \$892 million. This growth was driven by deepening our relationships with existing customers and continuing to attract new customers that we were able to help through the PPP earlier in the year. In the fourth quarter, our lending teams began to see loan pipelines rebound with commercial customers resuming projects that had been put on hold during the second and third quarters of 2020, given the uncertainty of the COVID-19 pandemic. Core loans held for investment grew by \$55.3 million in the fourth quarter setting the stage for expected strong Core loan growth in 2021.

CSB's residential real estate related businesses had an outstanding fourth quarter. With mortgage rates continuing to be near all-time lows, Mortgage Banker Finance had another period of record-breaking production, originating \$1.49 billion of loans during the quarter. Coastal States Mortgage originated \$29.1 million, a 19% increase over the same quarter a year ago. Growth in these lines of business has been fueled by the low interest rate environment and high demand for single family product in our markets. In addition, the Company's Homebuilder Finance Division saw meaningful growth in the fourth quarter.

Throughout the fourth quarter, the Company's credit metrics remained strong. The Bank continues to see a decline in its NPA ratio, which was down to 0.40% at the end of the fourth quarter. However, in light of the uncertainties posed by COVID-19 during 2020, the Company allocated \$2.4 million in additional reserves against those asset classes that may face a higher risk of default from the economic impact of the pandemic. Management will continue to monitor the loan loss reserve and will adjust as we learn more about the impact of the pandemic on our markets and our loan customers.

Operating Highlights for the Quarter Ended December 31, 2020

Net Income

The Company reported net income of \$1.7 million for the fourth quarter of 2020 compared to net income of \$2.1 million in the third quarter of 2020 and a net income of \$678 thousand in the fourth quarter of 2019. Compared to the third quarter of 2020, the decrease in net income was primarily attributable to additional reserves related to COVID-19 during the quarter. Compared to the fourth quarter of 2019, the increase in net income was primarily attributable to an increase in net interest income, offset by an increase in provision for credit losses coupled with salaries and employee benefits.

Net Interest Income and Net Interest Margin

Net interest income before provision for credit losses was \$9.6 million in the fourth quarter of 2020, compared to \$8.3 million in the third quarter of 2020 and \$6.6 million in the fourth quarter of 2019. Net interest income after provision for credit losses was \$8.2 million for the fourth quarter of 2020 compared to \$7.6 million in the third quarter of 2020 and \$6.0 million in the fourth quarter of 2019.

Net interest margin for the fourth quarter of 2020 was 3.59%, compared to 3.44% for the third quarter of 2020 and 3.99% for the fourth quarter of 2019. Compared to the third quarter of 2020, net interest margin improved by 15 basis points, due to recognition of origination fees on extinguished PPP loans. Compared to the same quarter last year, net interest margin was compressed by 40 basis points and was attributable to lower market interest rates following the Federal Reserve's rate adjustments at the end of the first quarter of 2020. In addition, PPP loans, which have a 1% interest rate, have also had an impact on our overall loan yields. To combat margin compression, management made changes to lower deposit rates to be more in line with market rates. Management also re-deployed excess liquidity into additional earning assets, such as investment securities, loan purchases, and a resell agreement.

The cost of funds for the fourth quarter of 2020 was 56 basis points compared to 57 basis points for the third quarter of 2020 and 98 basis points for the fourth quarter of 2019. Cost of funds remained stable from the third quarter of 2020 to the fourth quarter of 2020 due to costs related to subordinated debt offsetting a decline in costs of deposits. The cost of deposits was 48 basis points in the fourth quarter of 2020 as compared to 57 basis points in the third quarter of 2020 and 99 basis points in the fourth quarter of 2019. Beginning in the first quarter of 2020, the Bank began lowering deposit rates as the Federal

Reserve decreased the federal funds rates twice, bringing index rates down to near zero. Management expects the cost of deposits to modestly decline over the next several quarters as pricing changes continue to take effect on time deposits.

Provision for Credit Losses

Provision for credit losses was \$1.4 million during the fourth quarter of 2020, compared to \$718 thousand in the third quarter of 2020 and \$620 thousand in the fourth quarter of 2019. During the fourth quarter of 2020, an additional \$593 thousand was provided in allowance reserves for the impact of COVID-19, as compared to \$733 thousand and \$722 thousand in the third and second quarters of 2020, respectively. Other provision expense in the fourth quarter of 2020 primarily related to loan growth. Charge-off and recovery activity was not significant during the fourth quarter of 2020.

Noninterest Income

Noninterest income was \$2.1 million in the fourth quarter of 2020, compared to \$1.7 million in the third quarter of 2020 and \$1.8 million in the fourth quarter of 2019. The increase of \$354 thousand in the fourth quarter of 2020 compared to the third quarter of 2020 was primarily attributable to increases in gains on sale of government guaranteed loans of \$152 thousand and other noninterest income of \$169 thousand. Compared to the fourth quarter of 2019, the increase in noninterest income of \$283 thousand was primarily attributable to the increase gains in sale of securities of \$280 thousand and increase in mortgage banking income of \$324 thousand, offset by decreases in gains on sale of government guaranteed loans of \$400 thousand.

Noninterest Expense

Noninterest expense was \$8.2 million in the fourth quarter of 2020, as compared to \$6.6 million in the third quarter of 2020 and \$6.9 million in the fourth quarter of 2019. The increase of \$1.7 million during the fourth quarter of 2020 as compared to the third quarter of 2020 was primarily due to a \$1.2 million increase in salaries and employee's benefits due to changes in compensation related accruals and \$353 thousand in other professional services. Compared to the fourth quarter of 2019, the increase of \$1.3 million in noninterest expense was also attributable to an increase of \$1.1 million in salaries and employees' benefits and \$228 thousand increase in other professional services.

Balance Sheet Highlights for the Quarter Ended December 31, 2020

Assets

Total assets as of December 31, 2020 were \$1.148 billion, up from \$1.104 billion at September 30, 2020 and \$708 million at December 31, 2019. Total assets increased moderately by approximately \$44 million as compared to the prior quarter and is primarily attributable to cash and cash equivalents and growth in loans, which was generated by deposit growth.

Cash and cash equivalents at December 31, 2020 was \$157 million, compared to \$123 million at September 30, 2020, and up from \$49 million at December 31, 2019. The increase in cash and cash equivalents as compared to the prior quarter is primarily attributable to an increase in deposits.

Investment securities at December 31, 2020 were \$121 million, compared to \$120 million at September 30, 2020, and up from \$62 million at December 31, 2019. As interest rates have declined significantly in 2020, management has continued to look to deploy liquidity into higher interest earning assets through the securities portfolio.

Total gross loans held for investment at December 31, 2020 were \$703 million, compared to \$680 million at September 30, 2020, and up from \$468 million at December 31, 2019. The quarterly increase in loans held for investment of \$23 million is attributed to a \$55 million increase in core loan growth, offset by PPP loan forgiveness and paydowns of \$32 million. Total loans held for sale at December 31, 2020 were \$113 million, compared to \$127 million at September 30, 2020 and \$81 million at December 31, 2019.

The Allowance for loan losses (“ALL”) at December 31, 2020 was \$7.0 million, compared to \$5.7 million at September 30, 2020, and from \$3.9 million at December 31, 2019. The increase in provision in the fourth quarter of 2020 compared to the third quarter of 2020, is primarily related to the impacts of COVID-19 as well as growth in loans. Compared to the fourth quarter of 2019, the increase in provision is primarily related to the impacts of COVID-19 and growth of the loan portfolio. The ALL to Core Loans Held for Investment ratio¹ at December 31, 2020 is 1.21%, as compared to 1.08% at September 30, 2020 and 0.84% at December 31, 2019.

Liabilities

Total deposits at December 31, 2020 were \$892 million, an increase from \$857 million at September 30, 2020 and from \$601 million at December 31, 2019. The increase in total deposits is attributable to continued new customer acquisition across the franchise and increases in many of our existing customer’s deposit accounts as a result of the PPP program. Noninterest bearing deposits accounted for 25.7% of total deposits as compared to 30.0% of total deposits at September 30, 2020 and 23.5% at December 31, 2019. As the Company wins new loan customers and targets new deposit relationships with competitive rates on interest bearing accounts, our bankers are focused on ensuring that we win the entire relationship, including operating accounts, so that we can preserve our attractive mix of deposits.

¹ CSB defines this ratio as (Allowance for Loan Losses / (Loans Held for Investment – PPP Loans)). PPP loans are 100% government guaranteed and carry no reserve. PPP loans were \$122,517, \$153,577, and \$0 at December 31, 2020, September 30, 2020, and December 31, 2019, respectively.

Other borrowings at December 31, 2020 were \$146 million, a \$4 million increase from \$142 million at September 30, 2020 and a \$136 million increase from \$10 million at December 31, 2019. The modest increase in other borrowings compared to the third quarter of 2020, is primarily related to increased borrowings from the Paycheck Protection Program Liquidity Facility (“PPPLF”). Compared to the fourth quarter of 2019, the increase in other borrowings is primarily related to borrowings from the PPPLF of \$111 million, subordinated debt of \$15 million, and Federal Home Loan Bank (“FHLB”) advance of \$10 million. Utilizing the PPPLF has allowed the Company to leverage its balance sheet and make additional income with collateralized borrowings that do not have an impact on regulatory capital ratios.

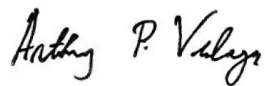
Capital

Tangible book value per share at December 31, 2020 was \$12.08. CSB is currently well capitalized with a leverage ratio of 9.15%, a common equity tier 1 capital ratio of 11.46%, and a total risk-based capital ratio of 12.34%.

Detailed Results

Supplementary unaudited financial statements are included for the fourth quarter of 2020 as an appendix of this letter. As always, I encourage you to contact me with any questions or comments.

Sincerely,



Anthony P. Valduga
CFO / COO

FORWARD-LOOKING STATEMENTS

Certain statements made in this report which are not statements of historical fact are forward-looking statements within the meaning of, and subject to the protections of, the federal securities laws. Forward looking statements include, among others, statements with respect to our beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, many of which are beyond our control and which may our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements made in this report. You can identify forward-looking statements through our use of words such as “believes,” “anticipates,” “expects,” “may,” “will,” “assumes,” “should,” “predicts,” “could,” “should,” “would,” “intends,” “targets,” “estimates,” “projects,” “plans,” “potential” and other similar words and expressions. Forward-looking statements are based on our current beliefs and expectations and are subject to significant risks and uncertainties. Accordingly, we caution you not to place undue reliance on such statements. We undertake no obligation to update or revise any of our forward-looking statements for events or circumstances that arise after the statement is made, except as otherwise may be required by law.

CoastalSouth Bancshares, Inc. and Subsidiary
Consolidated Balance Sheet - Unaudited
(dollars in thousands)

						4Q20 change vs	
	4Q20	3Q20	2Q20	1Q20	4Q19	3Q20	4Q19
Assets							
Cash and cash equivalents	\$ 157,003	\$ 123,488	\$ 52,428	\$ 48,250	\$ 49,273	\$ 33,515	\$ 107,730
Investment securities	121,207	120,304	119,519	78,085	62,496	903	58,711
Loans held for sale	113,481	127,463	109,749	119,018	81,243	(13,982)	32,238
Loans held for investment	702,518	679,874	634,282	484,468	468,326	22,644	234,192
Allowance for loan losses	(7,041)	(5,703)	(4,959)	(4,444)	(3,936)	(1,338)	(3,105)
Loans held for investment, net	695,477	674,171	629,323	480,024	464,390	21,306	231,087
Bank-owned life insurance	18,950	18,827	13,706	13,620	13,533	123	5,417
Premises, furniture and equipment, net	16,357	16,216	15,354	14,790	14,280	141	2,077
Deferred tax asset	10,111	9,788	10,103	10,752	10,779	323	(668)
Goodwill & intangible assets ⁽¹⁾	6,322	6,301	6,325	6,363	6,426	21	(104)
Other real estate owned	810	1,251	932	1,464	1,505	(441)	(695)
Other assets	7,814	6,076	6,444	5,080	4,564	1,738	3,250
Total assets	\$ 1,147,532	\$ 1,103,885	\$ 963,883	\$ 777,446	\$ 708,489	\$ 43,647	\$ 439,043
Liabilities and stockholders' equity							
Liabilities							
Deposits							
Noninterest bearing DDA	\$ 229,361	\$ 256,820	\$ 219,477	\$ 145,613	\$ 141,025	\$ (27,459)	\$ 88,336
Interest bearing DDA	134,934	137,804	117,085	96,394	90,761	(2,870)	44,173
Savings and money market	377,381	307,098	275,997	236,964	203,402	70,283	173,979
Certificates of deposit	149,876	155,256	176,529	181,238	165,904	(5,380)	(16,028)
Total deposits	891,552	856,978	789,088	660,209	601,092	34,574	290,460
Other borrowings	146,036	142,162	73,717	20,000	10,000	3,874	136,036
Other liabilities	7,956	5,120	4,164	3,665	5,103	2,836	2,853
Total liabilities	1,045,544	1,004,260	866,969	683,874	616,195	41,284	429,349
Stockholders' equity							
Voting common stock	6,003	5,993	5,966	6,203	6,203	10	(200)
Nonvoting common stock	1,991	1,991	1,991	1,754	1,754	-	237
Capital surplus	121,756	121,442	121,214	120,979	120,756	314	1,000
Accumulated deficit	(30,598)	(32,307)	(34,405)	(36,012)	(36,966)	1,709	6,368
Accumulated other comprehensive income	2,836	2,506	2,148	648	547	330	2,289
Total stockholders' equity	101,988	99,625	96,914	93,572	92,294	2,363	9,694
Total liabilities and stockholders' equity	\$ 1,147,532	\$ 1,103,885	\$ 963,883	\$ 777,446	\$ 708,489	\$ 43,647	\$ 439,043
Capital ratios ⁽²⁾							
Leverage ratio	9.15%	9.62%	9.15%	9.93%	10.32%	-0.46%	-1.17%
CET1 risk-based capital ratio	11.46	11.94	11.70	10.82	11.72	-0.48	-0.26
Tier 1 risk-based capital ratio	11.46	11.94	11.70	10.82	11.72	-0.48	-0.26
Total risk-based capital ratio	12.34	12.70	12.44	11.48	12.37	-0.36	-0.03

⁽¹⁾ Includes commercial mortgage servicing assets of \$899, \$830, \$805, \$792, and \$803 for 4Q20, 3Q20, 2Q20, 1Q20 and 4Q19, respectively.

⁽²⁾ Ratios are for Coastal States Bank, a wholly-owned subsidiary of CoastalSouth Bancshares, Inc.

CoastalSouth Bancshares, Inc. and Subsidiary
Consolidated Statements of Operations - Quarterly - Unaudited
(dollars in thousands)

						4Q20 change vs	
	4Q20	3Q20	2Q20	1Q20	4Q19	3Q20	4Q19
Interest income							
Interest on cash and cash equivalents	\$ 283	\$ 72	\$ 16	\$ 237	\$ 167	\$ 211	\$ 116
Interest and dividends on investment securities	720	766	616	456	424	(46)	296
Interest and fees on loans	10,052	8,776	8,099	7,425	7,550	1,276	2,502
Total interest income	11,055	9,614	8,731	8,118	8,141	1,441	2,914
Interest expense							
Deposits	1,054	1,145	1,360	1,535	1,467	(91)	(413)
Other borrowings	374	163	104	31	43	211	331
Total interest expense	1,428	1,308	1,464	1,566	1,510	120	(82)
Net interest income	9,627	8,306	7,267	6,552	6,631	1,321	2,996
Provision for credit losses	1,385	718	602	531	620	667	765
Net interest income after provision for credit losses	8,242	7,588	6,665	6,021	6,011	654	2,231
Noninterest income							
Mortgage banking related income	646	604	461	439	322	42	324
Gain on sale of government guaranteed loans	443	291	451	78	843	152	(400)
Securities gains, net	302	348	-	298	22	(46)	280
Interchange and card fee income	187	176	162	217	193	11	(6)
Service charges on deposit accounts	143	118	112	174	178	25	(35)
Gain on BOLI	122	121	87	86	87	1	35
Other noninterest income	259	90	31	137	174	169	85
Total noninterest income	2,102	1,748	1,304	1,429	1,819	354	283
Noninterest expense							
Salaries and employee benefits	5,464	4,299	3,706	4,006	4,370	1,165	1,094
Occupancy and equipment	439	421	406	378	435	18	4
Software and other technology expense	330	329	365	326	371	1	(41)
Data processing	316	315	310	315	295	1	21
Other professional services	638	285	271	276	410	353	228
Regulatory assessment	168	137	165	151	45	31	123
Loss on other real estate owned, net	135	1	51	41	349	134	(214)
Other noninterest expense	736	779	630	689	645	(43)	91
Total noninterest expense	8,226	6,566	5,904	6,182	6,920	1,660	1,306
Net income before taxes	2,118	2,770	2,065	1,268	910	(652)	1,208
Income tax expense	409	673	457	314	232	(264)	177
Net income	\$ 1,709	\$ 2,097	\$ 1,608	\$ 954	\$ 678	\$ (388)	\$ 1,031
Earnings per share - basic	\$ 0.21	\$ 0.27	\$ 0.20	\$ 0.12	\$ 0.09	\$ (0.06)	\$ 0.13
Tangible book value	\$ 96,565	\$ 94,154	\$ 91,394	\$ 88,001	\$ 86,671	\$ 2,411	\$ 9,894
Tangible book value per share	\$ 12.08	\$ 11.79	\$ 11.49	\$ 11.06	\$ 10.89	\$ 0.29	\$ 1.19
Weighted average shares outstanding	7,983,753	7,966,274	7,956,253	7,956,253	7,947,253	17,479	36,500
Shares outstanding	7,993,653	7,983,753	7,956,253	7,956,253	7,956,253	9,900	37,400

CoastalSouth Bancshares, Inc. and Subsidiary
Consolidated Statements of Operations - Year to Date - Unaudited
(dollars in thousands)

	Twelve Months Ended December 31		Change
	2020	2019	
Interest income			
Interest on cash and cash equivalents	\$ 608	\$ 953	\$ (345)
Interest and dividends on investment securities	2,558	1,678	880
Interest and fees on loans	34,352	27,632	6,720
Total interest income	37,518	30,263	7,255
Interest expense			
Deposits	5,094	5,192	(98)
Other borrowings	672	92	580
Total interest expense	5,766	5,284	482
Net interest income	31,752	24,979	6,773
Provision for credit losses	3,236	1,867	1,369
Net interest income after provision for credit losses	28,516	23,112	5,404
Noninterest income			
Mortgage banking related income	2,150	1,502	648
Gain on sale of government guaranteed loans	1,263	1,877	(614)
Securities gains, net	948	640	308
Interchange and card fee Income	742	770	(28)
Service charges on deposit accounts	547	699	(152)
Gain on BOLI	416	354	62
Other noninterest income	517	658	(141)
Total noninterest income	6,583	6,500	83
Noninterest expense			
Salaries and employee benefits	17,475	16,976	499
Occupancy and equipment	1,644	1,707	(63)
Software and other technology expense	1,350	1,406	(56)
Data processing	1,256	1,027	229
Professional services	1,470	1,296	174
Regulatory assessment	621	380	241
Loss on other real estate owned, net	228	399	(171)
Other noninterest expense	2,834	2,955	(121)
Total noninterest expense	26,878	26,146	732
Net income before taxes	8,221	3,466	4,755
Income tax expense	1,853	863	990
Net income	\$ 6,368	\$ 2,603	\$ 3,765
Earnings per share - basic	\$ 0.80	\$ 0.36	\$ 0.44
Weighted average shares outstanding	7,963,767	7,230,893	732,874
Shares outstanding	7,993,653	7,956,253	37,400

CoastalSouth Bancshares, Inc. and Subsidiary
Condensed Consolidated Average Balances and Yield Analysis
(dollars in thousands)

	4Q20	3Q20	2Q20	1Q20	4Q19	4Q20 change vs	
						3Q20	4Q19
Average balances							
Cash and cash equivalents	\$ 130,050	\$ 62,360	\$ 79,147	\$ 74,870	\$ 42,893	\$ 67,690	\$ 87,157
Investment securities	124,010	120,837	96,161	69,469	62,092	3,173	61,918
Loans held for sale	128,112	114,437	93,955	83,301	86,369	13,675	41,743
Loans held for investment	685,751	661,665	601,472	476,274	468,447	24,086	217,304
Total earning assets	1,067,923	959,299	870,735	703,914	659,801	108,624	408,122
Total nonearning assets	52,754	52,630	48,406	46,867	47,389	124	5,365
Total assets	1,120,677	1,011,929	919,141	750,781	707,190	108,748	413,487
Interest bearing deposits	639,995	577,146	535,696	484,497	443,167	62,849	196,828
Other borrowings	142,173	104,501	94,299	16,044	19,672	37,672	122,501
Total interest bearing liabilities	782,168	681,647	629,995	500,541	462,839	100,521	319,329
Noninterest bearing deposits	232,377	227,902	190,342	152,337	147,450	4,475	84,927
Other liabilities	5,327	4,298	3,818	4,456	4,706	1,029	621
Stockholders' equity	100,805	98,082	94,986	93,447	92,195	2,723	8,610
Total liabilities and stockholders' equity	1,120,677	1,011,929	919,141	750,781	707,190	108,748	413,487
Interest margins							
Cash and cash equivalents	0.87%	0.46%	0.08%	1.27%	1.54%	0.41%	-0.67%
Investment securities	2.31%	2.52%	2.58%	2.64%	2.71%	-0.21%	-0.40%
Loans	4.91%	4.50%	4.68%	5.34%	5.40%	0.41%	-0.49%
Total earning assets	4.12%	3.99%	4.03%	4.64%	4.90%	0.13%	-0.78%
Interest bearing deposits	0.66%	0.79%	1.02%	1.27%	1.31%	-0.13%	-0.65%
Other borrowings	1.05%	0.62%	0.44%	0.78%	0.87%	0.43%	0.18%
Total interest bearing liabilities	0.73%	0.76%	0.93%	1.26%	1.29%	0.48%	-0.10%
Cost of total deposits ⁽¹⁾	0.48%	0.57%	0.75%	0.97%	0.99%	-0.09%	-0.51%
Cost of total funding ⁽¹⁾	0.56%	0.57%	0.72%	0.96%	0.98%	-0.01%	-0.42%
Net interest spread	3.39%	3.23%	3.10%	3.38%	3.61%	0.16%	-0.22%
Net interest margin	3.59%	3.44%	3.36%	3.74%	3.99%	0.15%	-0.40%
Efficiency ratio	70.13%	65.31%	68.88%	77.46%	81.89%	4.82%	-11.76%

⁽¹⁾ Includes noninterest bearing deposits