



March 12, 2019

To our Shareholders:

Please find attached the unaudited financial results for the quarter ended December 31, 2018 for CoastalSouth Bancshares, Inc. (the “Company” or “COSO”), the parent company of CoastalStates Bank (“CSB” or the “Bank”).

2018 was an eventful year for the Company. We completed the acquisition of First Citizens Financial Corporation, the parent company of Foothills Community Bank, in July 2018, providing entry into Dawson and Forsyth Counties, attractive markets North of Atlanta. Additionally, we focused a significant amount of time and resources on hiring talented commercial bankers to support our entry into the Atlanta and Savannah markets, where we see fewer potential entry points from an M&A perspective, but where we find many great bankers looking for a growing, dynamic community bank to partner with. Recent consolidation in the large community bank space has afforded us the opportunity to share our story with many community bankers with deep roots in their respective communities and to build out best in class commercial banking teams in each of these markets.

During the fourth quarter of 2018, the Company also purchased a \$10.7 million portfolio of high credit quality student loans from Laurel Road Bank and a \$17.3 million portfolio of high-end marine loans from Radius Bank. The purchase of these loan portfolios provides additional earning assets in lieu of investing in additional securities in a volatile interest rate environment and replaces the Lending Club portfolio the Bank sold in the third quarter.

Operating Highlights for the Quarter Ended December 31, 2018

The Company reported net income of \$81 thousand for the fourth quarter of 2018, compared to net loss of \$33 thousand in the third quarter of 2018 and net loss of \$6.7 million in the fourth quarter of 2017. The Company reported net income from continuing operations of \$81 thousand in the fourth quarter of 2018, compared to net loss from continuing operations of \$33 thousand in the third quarter of 2018 and net loss from continuing operations of \$7.2 million in the fourth quarter of 2017.

Net interest income before provision for credit losses was \$5.7 million in the fourth quarter 2018, compared to \$5.6 million in the third quarter of 2018 and \$4.1 million in the fourth quarter of 2017. Net interest margin for the fourth quarter of 2018 was 4.34% as compared to 4.31% for the third quarter of 2018 and 4.11% for the fourth quarter of 2017. The expansion in net interest margin is primarily attributable to the Company’s asset sensitive interest rate profile and benefited from rate movements throughout 2018. The cost of funds for the fourth quarter of



2018 was 67 basis points compared to 55 basis points for the third quarter of 2018 and 30 basis points for the fourth quarter of 2017. The increase in cost of funds is primarily driven by a higher cost of deposits associated with the acquisition of Foothills, promotional rates associated with the acquisition of new deposit relationships and increases in rates for deposit accounts due to the rising rate environment over 2018.

Provision for credit losses was \$583 thousand in the fourth quarter of 2018, compared to \$518 thousand in the third quarter of 2018 and \$1.8 million in the fourth quarter of 2017. The provision in the fourth quarter of 2018 was impacted by specific reserves on two legacy credits and additional provision related to the growing loan portfolio.

Noninterest income was \$1.0 million in the fourth quarter of 2018, compared to \$1.3 million in the third quarter of 2018 and \$989 thousand in the fourth quarter of 2017. The decrease in noninterest income in the fourth quarter was attributable to a \$112 thousand gain on sale of \$1.2 million of government guaranteed loans sold in the fourth quarter of 2018 as compared to \$324 million gain on sale of \$3.9 million in government guaranteed loans sold in the third quarter of 2018.

Noninterest expense was \$6.2 million in the fourth quarter of 2018, as compared to \$6.3 million in the third quarter of 2018 and \$6.2 million in the fourth quarter of 2017. The decrease in non-interest expense was primarily due to a decrease in salaries and employee benefits of \$219 thousand due to year end bonus accrual adjustments.

Balance Sheet Highlights for the Quarter Ended December 31, 2018

Total assets at December 31, 2018 were \$584 million, up from \$560 million at September 30, 2018 and \$532 million at December 31, 2017. The increase in total assets as compared to the prior quarter is primarily attributable growth in loans and deposits during the quarter.

Total loans held for investment at December 31, 2018 were \$378 million, up from \$348 million at September 30, 2018 and up from \$266 million at December 31, 2017. The increase in total loans is primarily due to the consumer loan purchases described above, as well as production coming from our newer markets in Savannah and Atlanta.

Total deposits at December 31, 2018 were \$513 million, up from \$490 million at September 30, 2018 and up from \$367 million at December 31, 2017. The increase in total deposits is attributed to new customer growth in new markets, primarily the Atlanta market. Noninterest bearing deposits make up 22.7% of total deposits at December 31, 2018.



Tangible book value per share at December 31, 2018 was \$9.68. CSB is currently well capitalized with a common equity tier 1 capital ratio of 11.12%, a tier 1 leverage ratio of 9.32%, and a total risk-based capital ratio of 11.75%.

Detailed Results

Supplementary unaudited financial statements are included for the fourth quarter of 2018 as an appendix of this letter.

As always, I encourage you to contact me with any questions or comments.

Sincerely,

A handwritten signature in black ink that reads "Anthony P. Valduga".

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)

	4Q18	3Q18	2Q18	1Q18	4Q17	4Q18 change vs	
						3Q18	4Q17
Assets							
Cash and cash equivalents	\$ 67,696	\$ 70,224	\$ 61,600	\$ 37,952	\$ 145,801	\$ (2,528)	\$ (78,105)
Investment securities	60,638	61,527	63,706	65,671	58,470	(889)	2,168
Loans held for sale	32,641	32,713	32,581	26,372	36,334	(72)	(3,693)
Loans held for investment	376,746	347,551	289,506	282,650	265,819	29,195	110,927
Allowance for loan losses	(2,919)	(2,299)	(3,494)	(4,081)	(3,915)	(620)	996
Loans held for investment, net	373,827	345,252	286,012	278,569	261,904	28,575	111,923
Premises, furniture and equipment, net	12,047	12,141	6,574	6,633	1,176	(94)	10,871
Other real estate owned	2,117	2,619	2,912	3,078	4,172	(502)	(2,055)
Deferred tax asset	12,154	12,414	10,517	10,321	10,021	(260)	2,133
Goodwill & intangible assets (1)	6,322	6,469	146	12	-	(147)	6,322
Bank-owned life insurance	13,180	13,087	11,388	11,307	11,227	93	1,953
Other assets	3,489	3,114	2,367	2,517	2,865	375	624
Total assets	\$ 584,111	\$ 559,560	\$ 477,803	\$ 442,432	\$ 531,970	\$ 24,551	\$ 52,141

Liabilities and stockholders' equity

Liabilities

Deposits							
Noninterest bearing DDA	\$ 116,478	\$ 114,774	\$ 104,628	\$ 98,362	\$ 90,374	\$ 1,704	\$ 26,104
Interest bearing DDA	91,056	93,436	97,967	87,408	87,829	(2,380)	3,227
Savings and money market	186,237	156,617	136,485	115,952	111,980	29,620	74,257
Certificates of deposit	119,555	124,835	80,315	83,034	77,016	(5,280)	42,539
Total Deposits	513,326	489,662	419,395	384,756	367,199	23,664	146,127
Other borrowings	500	500	500	500	105,682	-	(105,182)
Other liabilities	2,454	2,445	1,613	1,271	1,951	9	503
Total liabilities	516,280	492,607	421,508	386,527	474,832	23,673	41,448

Stockholders' equity

Voting Common Stock	4,951	4,951	4,255	4,255	4,255	-	696
Nonvoting Common Stock	1,449	1,449	1,449	1,449	1,449	-	-
Preferred stock	-	-	-	-	-	-	-
Capital surplus	101,590	101,432	91,017	90,875	90,743	158	10,847
Accumulated deficit	(39,569)	(39,736)	(39,709)	(40,048)	(39,479)	167	(90)
Accumulated other comprehensive income	(590)	(1,143)	(717)	(626)	170	553	(760)
Total stockholders' equity	67,831	66,953	56,295	55,905	57,138	878	10,693
Total liabilities and stockholders' equity	\$ 584,111	\$ 559,560	\$ 477,803	\$ 442,432	\$ 531,970	\$ 24,551	\$ 52,141

Capital ratios (2)

Leverage ratio	9.32%	9.30%	9.66%	9.90%	10.38%	0.02%	-1.06%
CET1 risk-based capital ratio	11.12	11.58	12.29	12.64	13.38	-0.46	-2.26
Tier 1 risk-based capital ratio	11.12	11.58	12.29	12.64	13.38	-0.46	-2.26
Total risk-based capital ratio	11.75	12.11	13.28	13.85	14.58	-0.36	-2.83

(1) Includes commercial mortgage servicing assets of \$475, \$476, \$146, \$12, and \$0 for 4Q18, 3Q18, 2Q18, 1Q18, and 4Q17, respectively.

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

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

						4Q18 change vs	
	4Q18	3Q18	2Q18	1Q18	4Q17	3Q18	4Q17
Interest income							
Interest on cash and cash equivalents	\$ 419	\$ 316	\$ 166	\$ 152	\$ 132	\$ 103	\$ 287
Interest and dividends on investment securities	423	448	406	333	193	(25)	230
Interest and fees on loans	5,648	5,368	4,308	4,133	4,038	280	1,610
Total interest income	6,490	6,132	4,880	4,618	4,363	358	2,127
Interest expense							
Deposits	822	649	406	365	227	173	595
Other borrowings	10	12	13	42	44	(2)	(34)
Total interest expense	832	661	419	407	271	171	561
Net interest income	5,658	5,471	4,461	4,211	4,092	187	1,566
Provision for credit losses	583	518	103	490	1,787	65	(1,204)
Net interest income after provision for credit losses	5,075	4,953	4,358	3,721	2,305	122	2,770
Noninterest income							
Service charges on deposit accounts	188	167	154	196	164	21	24
Interchange and card fee Income	176	170	172	150	155	6	21
Mortgage banking related income	270	292	387	338	497	(22)	(227)
Gain/(loss) on BOLI	90	91	82	80	57	(1)	33
Other noninterest income	314	574	822	72	116	(260)	198
Total noninterest income	1,038	1,294	1,617	836	989	(256)	49
Noninterest expense							
Salaries and employee benefits	3,503	3,722	3,235	3,515	2,917	(219)	586
Professional services	494	622	370	259	299	(128)	195
Occupancy	358	359	273	290	359	(1)	(1)
Data processing	302	214	210	211	194	88	108
Marketing and advertising	115	114	81	34	44	1	71
Regulatory assessment	131	109	89	99	(50)	22	181
Loss on OREO, net	118	87	89	(31)	945	31	(827)
Net cost of operation of OREO	48	13	113	101	130	35	(82)
Securities (gains)/losses	71	-	-	(14)	-	71	71
Impairment on investment securities	-	-	-	-	290	-	(290)
Other noninterest expense	1,014	1,050	1,069	859	1,111	(36)	(97)
Total noninterest expense	6,154	6,290	5,529	5,323	6,239	(136)	(85)
Net income (loss) before taxes	(41)	(43)	446	(766)	(2,945)	2	2,904
Income tax expense (benefit)	(122)	(10)	106	(197)	4,268	(112)	(4,390)
Net income (loss) from continuing operations	\$ 81	\$ (33)	\$ 340	\$ (569)	\$ (7,213)	\$ 114	\$ 7,294
Loss from discontinued operations, net of tax	-	-	-	-	(544)	-	544
Net income (loss)	\$ 81	\$ (33)	\$ 340	\$ (569)	\$ (6,668)	\$ 114	\$ 6,749
Earnings per share - basic							
Earnings per share - basic	\$ 0.01	\$ (0.01)	\$ 0.06	\$ (0.10)	\$ (1.17)	\$ 0.02	\$ 1.18
Tangible book value	\$ 61,509	\$ 60,484	\$ 56,149	\$ 55,893	\$ 57,138	\$ 1,025	\$ 4,371
Tangible book value per share	\$ 9.61	\$ 9.56	\$ 9.84	\$ 9.80	\$ 10.02	\$ 0.05	\$ (0.41)
Weighted average shares outstanding	6,400,084	6,328,831	5,704,196	5,704,196	5,704,196	71,253	695,888

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

	Twelve Months Ended December 31		Change
	2018	2017	
Interest income			
Interest on cash and cash equivalents	\$ 1,053	\$ 575	\$ 478
Interest and dividends on investment securities	1,610	1,049	561
Interest and fees on loans	19,457	15,885	3,572
Total interest income	22,120	17,509	4,611
Interest expense			
Deposits	2,242	886	1,356
Other borrowings	77	830	(753)
Total interest expense	2,319	1,716	603
Net interest income	19,801	15,793	4,008
Provision for credit losses	1,694	4,452	(2,758)
Net interest income after provision for credit losses	18,107	11,341	6,766
Noninterest income			
Service charges on deposit accounts	705	650	55
Interchange and card fee Income	668	599	69
Mortgage banking related income	1,287	3,170	(1,883)
Gain/(loss) on BOLI	343	172	171
Other noninterest income	1,782	405	1,377
Total noninterest income	4,785	4,996	(211)
Noninterest expense			
Salaries and employee benefits	13,975	11,277	2,698
Professional services	1,745	1,007	738
Occupancy	1,280	1,377	(97)
Data processing	937	723	214
Marketing and advertising	344	186	158
Regulatory assessment	428	464	(36)
Loss on OREO, net	263	1,445	(1,182)
Net cost of operation of OREO	275	698	(423)
Securities (gains)/losses	57	-	57
Impairment on investment securities	-	344	(344)
Other noninterest expense	3,992	4,438	(446)
Total noninterest expense	23,296	21,959	1,337
Net income (loss) before taxes	(404)	(5,622)	5,218
Income tax expense (benefit)	(223)	3,510	(3,733)
Net income (loss) from continuing operations	\$ (181)	\$ (9,132)	\$ 8,951
Loss from discontinued operations, net of tax	-	(2,681)	2,681
Net income (loss)	\$ (181)	\$ (11,813)	\$ 11,632
Earnings per share - basic	\$ (0.03)	\$ (3.59)	\$ 3.56

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

	4Q18	3Q18	2Q18	1Q18	4Q17	4Q18 change vs	
						3Q18	4Q17
Average balances							
Cash and cash equivalents	\$ 76,889	\$ 68,018	\$ 42,529	\$ 45,797	\$ 49,043	\$ 8,871	\$ 27,846
Investment securities	60,869	62,715	64,843	60,484	57,475	(1,846)	3,394
Loans held for sale	30,370	33,530	24,496	22,896	31,615	(3,160)	(1,245)
Loans held for investment	353,744	342,993	287,244	283,539	260,174	10,751	93,570
Total earning assets	521,872	507,255	419,111	412,716	398,307	14,617	123,565
Total nonearning assets	47,348	43,507	30,105	29,210	30,607	3,841	16,741
Total assets	569,220	550,762	449,216	441,927	428,915	18,458	140,305
Interest bearing deposits	381,655	361,724	290,989	283,624	259,384	19,931	122,271
Other borrowings	500	500	500	7,496	8,025	-	(7,525)
Total interest bearing liabilities	382,155	362,224	291,489	291,120	267,409	19,931	114,746
Noninterest bearing deposits	116,551	120,000	100,458	92,646	95,517	(3,449)	21,034
Other liabilities	2,710	3,187	1,402	1,615	2,055	(477)	655
Stockholders' equity	67,804	65,351	55,867	56,546	63,933	2,453	3,871
Total liabilities and stockholders' equity	569,220	550,762	449,216	441,927	428,915	18,458	140,305
Interest margins							
Cash and cash equivalents	2.18%	1.86%	1.56%	1.33%	1.08%	0.32%	1.10%
Investment securities	2.78%	2.86%	2.50%	2.20%	1.34%	-0.08%	1.44%
Loans	5.88%	5.70%	5.53%	5.39%	5.54%	0.18%	0.35%
Total earning assets	4.97%	4.84%	4.66%	4.48%	4.38%	0.14%	0.59%
Interest bearing deposits	0.86%	0.72%	0.56%	0.51%	0.35%	0.14%	0.51%
Other borrowings	8.00%	9.60%	10.40%	2.24%	2.19%	-1.60%	5.81%
Total interest bearing liabilities	0.87%	0.73%	0.57%	0.56%	0.41%	3.43%	1.96%
Cost of total deposits (1)	0.66%	0.54%	0.41%	0.39%	0.26%	0.12%	0.40%
Cost of total funding (1)	0.67%	0.55%	0.43%	0.42%	0.30%	0.12%	0.37%
Net interest spread	4.10%	4.11%	4.08%	3.92%	3.98%	0.00%	0.13%
Net interest margin	4.34%	4.31%	4.26%	4.08%	4.11%	0.02%	0.23%
Efficiency ratio	91.91%	92.98%	90.97%	105.47%	122.79%	-1.07%	-30.89%

(1) Includes noninterest bearing deposits