



November 12, 2019

To our Shareholders:

Please find attached the unaudited financial results for the quarter ended September 30, 2019 for CoastalSouth Bancshares, Inc. (the "Company" or "COSO"), the parent company of Coastal States Bank ("CSB" or the "Bank").

Growth in the CSB's balance sheet over the past nine months resulted in increased profitability as Bank began to leverage the investments made in additional bankers during 2018. We expect this trend to continue as these bankers build their portfolios. Bank consolidation throughout our markets has continued to present opportunities to both win new relationships and recruit new bankers.

Loan and deposit growth across CSB's various lines of business continued to be strong during the third quarter. Through the third quarter, CSB has grown deposits have grown \$61.0 million, or approximately 11.9%, since December 31, 2018. This deposit growth has been led by the Bank's Lowcountry Region in Hilton Head Island and Bluffton. As expected, the seasonality of the tourism businesses modestly decreased the Lowcountry deposit base in the third quarter, however, other markets continued to demonstrate strong deposit gathering activities, resulting in a net increase in deposits for the third quarter. Management continues to focus on both the sources and prices of funding in order to balance strong loan originations while growing core deposits.

Through the third quarter, CSB has grown its loan portfolio \$131.4 million, or approximately 32.1%, since December 31, 2018. CSB's loan growth has been fueled by the addition of commercial bankers in Atlanta and Savannah during 2018, as well as the performance of the Bank's Senior Housing, Homebuilder and Mortgage Banker Finance divisions. CSB continues to focus on sound underwriting, prudent deal structures, fair pricing, and portfolio diversification.

Operating Highlights for the Quarter Ended September 30, 2019

The Company reported net income of \$1.3 million for the third quarter of 2019, compared to net income of \$617 thousand in the second quarter of 2019 and a net loss of \$33 thousand in the third quarter of 2018. The quarterly increase is due to continued growth in total interest income as well as certain loan recoveries collected during the quarter.

Net interest income before provision for credit losses was \$6.5 million in the third quarter of 2019, compared to \$6.1 million in the second quarter of 2019 and \$5.5 million in the third quarter of 2018.

Net interest margin for the third quarter of 2019 was 4.10% as compared to 4.17% for the second quarter of 2019 and 4.31% for the third quarter of 2018. The Bank saw modest net interest margin compression during the first nine months of 2019 which is attributable to rising deposit costs and re-pricing of variable rate loans. This was partially offset by growth in the loan portfolio and running at an overall higher loan to deposit ratio in the third quarter as compared to the first quarter. The cost of funds for the third quarter of 2019 was 98 basis points compared to 92 basis points for the second quarter of 2019 and 55 basis points for the third quarter of 2018. The increase in cost of funds from 2018 to 2019 is primarily driven by promotional rates associated with the acquisition of new deposit relationships and increases in rates for deposit accounts due to the rising rate environment during 2018 and the first part of 2019. With rate decreases in the second half of 2019, management expects the cost of funds to stabilize over the next several quarters.

Provision(benefit) for credit losses was a benefit of (\$22) thousand during the third quarter of 2019, compared to provision of \$624 thousand in the second quarter of 2019 and provision of \$518 thousand in the third quarter of 2018. The provision in the third quarter of 2019 was impacted by recoveries of \$484 thousand, resulting primarily from successful collection pursuits related to outstanding judgments, exceeding provision of \$462 thousand on loan portfolio growth during the quarter.

Noninterest income was \$1.6 million in the third quarter of 2019, compared to \$1.8 million in the second quarter of 2019 and \$1.3 million in the third quarter of 2018. The decrease from the second quarter of 2019 to the third quarter of 2019 was primarily due to decreases in securities gains of \$82 thousand and decreases in gain on sale of government guaranteed loans of \$262 thousand; offset by an increase in mortgage banking income of \$75 thousand. The Company recorded at \$172 thousand gain on sale of \$1.9 million of government guaranteed loans sold in the third quarter of 2019 as compared to a \$434 thousand gain on sale of \$6.4 million in government guaranteed loans sold in the second quarter of 2019.

Noninterest expense was \$6.4 million in the third quarter of 2019, as compared to \$6.5 million in the second quarter of 2019 and \$6.3 million in the third quarter of 2018. The decrease from the second quarter of 2019 to the third quarter of 2019 was primarily due to the payment of executive severance in the second quarter.

Balance Sheet Highlights for the Quarter Ended June 30, 2019

Total assets at September 30, 2019 were \$691 million, compared to \$663 million at June 30, 2019 and \$560 million at September 30, 2018. The increase in total assets as compared to the prior quarter is primarily attributable growth in loans.



Total gross loans held for investment at September 30, 2019 were \$454 million, compared to \$431 million at June 30, 2019 and up from \$348 million at September 30, 2018. The quarterly increase in loans held for investment is due to new loan production generated from lines of business across the Company. Total loans held for sale at September 30, 2019 were \$87 million, compared to \$73 million at June 30, 2019 and \$33 million at September 30, 2018. The increase in loans held for sale is due to increased mortgage warehouse activity from the Mortgage Banker Finance division.

Total deposits at September 30, 2019 were \$574 million, up from \$568 million at June 30, 2019 and up from \$490 million at September 30, 2018. The increase in total deposits is attributed to new customer acquisition across the franchise, despite modest seasonal decreases in the Lowcountry Region. Noninterest bearing deposits make up 24.1% of total deposits as compared to 24.2% of total deposits at June 30, 2019 and 23.4% at September 30, 2018. As we win new loan customers and target 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.

Tangible book value per share at September 30, 2019 was \$10.80. CSB is currently well capitalized with a common equity tier 1 capital ratio of 11.66%, a leverage ratio of 10.54%, and a total risk-based capital ratio of 12.27%.

Detailed Results

Supplementary unaudited financial statements are included for the third quarter of 2019 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)

	3Q19	2Q19	1Q19	4Q18	3Q18	3Q19 change vs	
						2Q19	3Q18
Assets							
Cash and cash equivalents	\$ 40,356	\$ 51,901	\$ 42,094	\$ 67,696	\$ 70,224	\$ (11,545)	\$ (29,868)
Investment securities	61,408	58,533	60,208	60,638	61,527	2,875	(119)
Loans held for sale	87,256	73,243	59,380	32,641	32,713	14,013	54,543
Loans held for investment	453,519	430,599	405,279	376,746	347,551	22,920	105,968
Allowance for loan losses	(3,648)	(3,364)	(2,942)	(2,919)	(2,299)	(284)	(1,349)
Loans held for investment, net	449,871	427,235	402,337	373,827	345,252	22,636	104,619
Premises, furniture and equipment, net	14,137	14,047	12,086	12,047	12,141	90	1,996
Other real estate owned	1,854	1,854	2,002	2,117	2,619	-	(765)
Deferred tax asset	11,296	11,762	11,930	12,154	12,414	(466)	(1,118)
Goodwill & intangible assets (1)	6,366	6,399	6,357	6,322	6,469	(33)	(103)
Bank-owned life insurance	13,445	13,356	13,267	13,180	13,087	89	358
Other assets	4,569	4,326	5,663	3,489	3,114	243	1,455
Total assets	\$ 690,558	\$ 662,656	\$ 615,324	\$ 584,111	\$ 559,560	\$ 27,902	\$ 130,998

Liabilities and stockholders' equity

Liabilities

Deposits							
Noninterest bearing DDA	\$ 138,639	\$ 137,684	\$ 124,886	\$ 116,478	\$ 114,774	\$ 955	\$ 23,865
Interest bearing DDA	93,620	92,535	97,434	91,056	93,436	1,085	184
Savings and money market	184,317	184,369	172,456	186,237	156,617	(52)	27,700
Certificates of deposit	157,785	153,811	146,966	119,555	124,835	3,974	32,950
Total Deposits	574,361	568,399	541,742	513,326	489,662	5,962	84,699
Other borrowings	20,000	-	500	500	500	20,000	19,500
Other liabilities	4,681	3,912	4,161	2,454	2,445	769	2,236
Total liabilities	599,042	572,311	546,403	516,280	492,607	26,731	106,435

Stockholders' equity

Voting Common Stock	6,194	6,194	4,951	4,951	4,951	-	1,243
Nonvoting Common Stock	1,754	1,754	1,449	1,449	1,449	-	305
Preferred stock	-	-	-	-	-	-	-
Capital surplus	120,488	120,568	101,793	101,590	101,432	(80)	19,056
Accumulated deficit	(37,647)	(38,935)	(39,554)	(39,569)	(39,736)	1,288	2,089
Accumulated other comprehensive income	727	764	282	(590)	(1,143)	(37)	1,870
Total stockholders' equity	91,516	90,345	68,921	67,831	66,953	1,171	24,563
Total liabilities and stockholders' equity	\$ 690,558	\$ 662,656	\$ 615,324	\$ 584,111	\$ 559,560	\$ 27,902	\$ 130,998

Capital ratios (2)

Leverage ratio	10.54%	10.98%	8.97%	9.32%	9.30%	-0.44%	1.24%
CET1 risk-based capital ratio	11.66	12.03	10.07	11.12	11.58	-0.37	0.08
Tier 1 risk-based capital ratio	11.66	12.03	10.07	11.12	11.58	-0.37	0.08
Total risk-based capital ratio	12.27	12.62	10.64	11.75	12.11	-0.35	0.16

(1) Includes commercial mortgage servicing assets of \$689, \$667, \$568, \$475, and \$476 for 3Q19, 2Q19, 1Q19, 4Q18, and 3Q18, 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)

						3Q19 change vs	
	3Q19	2Q19	1Q19	4Q18	3Q18	2Q19	3Q18
Interest income							
Interest on cash and cash equivalents	\$ 195	\$ 264	\$ 328	\$ 419	\$ 316	\$ (69)	\$ (121)
Interest and dividends on investment securities	398	435	420	423	448	(37)	(50)
Interest and fees on loans	7,321	6,720	6,043	5,648	5,368	601	1,953
Total interest income	7,914	7,419	6,791	6,490	6,132	495	1,782
Interest expense							
Deposits	1,405	1,279	1,042	822	649	126	756
Other borrowings	29	10	12	10	12	19	17
Total interest expense	1,434	1,289	1,054	832	661	145	773
Net interest income	6,480	6,130	5,737	5,658	5,471	350	1,009
Provision for credit losses	(22)	624	645	583	518	(646)	(540)
Net interest income after provision for credit losses	6,502	5,506	5,092	5,075	4,953	996	1,549
Noninterest income							
Service charges on deposit accounts	169	170	182	188	167	(1)	2
Interchange and card fee income	190	203	182	176	170	(13)	20
Mortgage banking related income	485	410	286	270	292	75	193
Gain/(loss) on BOLI	89	88	88	90	91	1	(2)
Securities (gains)/losses	268	350	-	71	-	(82)	268
Other noninterest income	414	604	598	314	574	(190)	(160)
Total noninterest income	1,615	1,825	1,336	1,109	1,294	(210)	321
Noninterest expense							
Salaries and employee benefits	4,201	4,355	4,050	3,503	3,722	(154)	479
Occupancy	429	412	434	494	359	17	70
Data processing	240	241	250	-	214	(1)	26
Marketing and advertising	96	138	99	302	114	(42)	(18)
Regulatory assessment	93	118	123	115	109	(25)	(16)
Professional services	266	242	336	131	622	24	(356)
Loss on OREO, net	-	(2)	53	118	87	2	(87)
Net cost of operation of OREO	23	22	33	48	-	1	23
Other noninterest expense	1,090	963	1,019	1,014	1,063	127	27
Total noninterest expense	6,438	6,489	6,397	6,083	6,290	(51)	148
Net income (loss) before taxes	1,679	842	31	101	(43)	837	1,722
Income tax expense (benefit)	391	225	13	(122)	(10)	166	401
Net income (loss)	\$ 1,288	\$ 617	\$ 18	\$ 223	\$ (33)	\$ 671	\$ 1,321
Earnings per share - basic	\$ 0.16	\$ 0.09	\$ 0.00	\$ 0.03	\$ (0.01)	\$ 0.07	\$ 0.17
Tangible book value	\$ 85,839	\$ 84,613	\$ 63,132	\$ 61,984	\$ 60,960	\$ 1,226	\$ 24,879
Tangible book value per share	\$ 10.80	\$ 10.65	\$ 9.86	\$ 9.68	\$ 9.52	\$ 0.15	\$ 1.28
Weighted average shares outstanding	7,947,253	6,604,107	6,400,084	6,400,084	6,328,831	1,343,147	1,618,422
Shares outstanding	7,947,253	7,947,253	6,400,084	6,400,084	6,400,084	-	1,547,169

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

	Nine Months Ended September 30		Change
	2019	2018	
Interest income			
Interest on cash and cash equivalents	\$ 787	\$ 634	\$ 153
Interest and dividends on investment securities	1,253	1,187	66
Interest and fees on loans	20,084	13,809	6,275
Total interest income	22,124	15,630	6,494
Interest expense			
Deposits	3,726	1,420	2,306
Other borrowings	51	67	(16)
Total interest expense	3,777	1,487	2,290
Net interest income	18,347	14,143	4,204
Provision for credit losses	1,247	1,111	136
Net interest income after provision for credit losses	17,100	13,032	4,068
Noninterest income			
Service charges on deposit accounts	521	517	4
Interchange and card fee income	575	492	83
Mortgage banking related income	1,181	1,017	164
Gain/(loss) on BOLI	265	253	12
Securities (gains)/losses	618	14	604
Other noninterest income	1,616	1,468	148
Total noninterest income	4,776	3,761	1,015
Noninterest expense			
Salaries and employee benefits	12,606	10,472	2,134
Occupancy	1,275	922	353
Data processing	731	635	96
Marketing and advertising	333	229	104
Regulatory assessment	334	297	37
Professional services	844	1,251	(407)
Loss on OREO, net	51	145	(94)
Net cost of operation of OREO	78	163	(85)
Other noninterest expense	3,072	3,042	30
Total noninterest expense	19,324	17,156	2,168
Net income (loss) before taxes	2,552	(363)	2,915
Income tax expense (benefit)	629	(101)	730
Net income (loss)	\$ 1,923	\$ (262)	\$ 2,185
Earnings per share - basic	\$ 0.28	\$ (0.04)	\$ 0.32

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

	3Q19	2Q19	1Q19	4Q18	3Q18	3Q19 change vs	
						2Q19	3Q18
Average balances							
Cash and cash equivalents	\$ 43,839	\$ 48,455	\$ 56,480	\$ 76,889	\$ 68,018	\$ (4,616)	\$ (24,179)
Investment securities	58,632	59,915	60,145	60,869	62,715	(1,283)	(4,083)
Loans held for sale	85,080	62,762	39,156	30,370	33,530	22,318	51,550
Loans held for investment	445,128	417,342	392,772	353,744	342,993	27,786	102,135
Total earning assets	632,679	588,473	548,552	521,872	507,255	44,206	125,424
Total nonearning assets	48,304	47,964	48,296	47,348	43,507	340	4,797
Total assets	680,983	636,437	596,848	569,220	550,762	44,546	130,221
Interest bearing deposits	430,579	421,339	402,600	381,655	361,724	9,240	68,855
Other borrowings	10,896	428	532	500	500	10,468	10,396
Total interest bearing liabilities	441,475	421,767	403,132	382,155	362,224	19,708	79,251
Noninterest bearing deposits	144,224	137,831	121,176	116,551	120,000	6,393	24,224
Other liabilities	4,244	4,660	4,300	2,710	3,187	(416)	1,057
Stockholders' equity	91,040	72,179	68,240	67,804	65,351	18,861	25,689
Total liabilities and stockholders' equity	680,983	636,437	596,848	569,220	550,762	44,546	130,221
Interest margins							
Cash and cash equivalents	1.78%	2.18%	2.32%	2.18%	1.86%	-0.40%	-0.08%
Investment securities	2.72%	2.90%	2.79%	2.78%	2.86%	-0.19%	-0.14%
Loans	5.52%	5.60%	5.60%	5.88%	5.70%	-0.08%	-0.18%
Total earning assets	5.00%	5.04%	4.95%	4.97%	4.84%	-0.04%	0.17%
Interest bearing deposits	1.31%	1.21%	1.04%	0.86%	0.72%	0.09%	0.59%
Other borrowings	1.06%	9.35%	9.03%	8.00%	9.60%	-8.29%	-8.54%
Total interest bearing liabilities	1.30%	1.22%	1.05%	0.87%	0.73%	2.94%	3.90%
Cost of total deposits (1)	0.98%	0.91%	0.80%	0.66%	0.54%	0.06%	0.44%
Cost of total funding (1)	0.98%	0.92%	0.80%	0.67%	0.55%	0.06%	0.43%
Net interest spread	3.70%	3.82%	3.91%	4.10%	4.11%	-0.12%	-0.40%
Net interest margin	4.10%	4.17%	4.18%	4.34%	4.31%	-0.07%	-0.22%
Efficiency ratio	79.53%	81.57%	90.44%	89.89%	92.98%	-2.04%	-13.45%

(1) Includes noninterest bearing deposits