



August 12, 2019

To our Shareholders:

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

Loan and deposit growth across CSB’s various lines of business continues to be strong during the second quarter. Our Mortgage Banker Finance division generated another quarter of record production, and our presence in our newest markets, Savannah and Atlanta, continues to blossom. In Savannah, the Company purchased a location where a planned branch is anticipated to be opened during early 2020. In Atlanta, the addition of an advisory board with business leaders from around the city serves to further integrate CSB into the community. The North Georgia and Lowcountry markets are active banking markets as well, and we have been able to continue to attract new customers.

In order to support the strong growth we saw in the first half of 2019, the Company raised approximately \$20 million in additional common equity through a private placement of shares in June. This additional capital will support the continued growth of the Company while maintaining a strong regulatory capital position.

Additionally in June, the Bank launched its new logo and branding, including a new website at [www.coastalstatesbank.com](http://www.coastalstatesbank.com). The Bank’s new compass logo and emphasis on “CSB” is designed to unify our Bank brand and identity across multiple regions, while still honoring the coastal beginnings of the franchise. Wherever CSB operates, we are still Local. And proud of it.

### **Operating Highlights for the Quarter Ended June 30, 2019**

The Company reported net income of \$617 thousand for the second quarter of 2019, compared to net income of \$18 thousand in the first quarter of 2019 and net income of \$340 thousand in the second quarter of 2018.

Net interest income before provision for credit losses was \$6.1 million in the second quarter of 2019, compared to \$5.7 million in the first quarter of 2019 and \$4.5 million in the second quarter of 2018. Net interest margin for the second quarter of 2019 was 4.17% as compared to 4.18% for the first quarter of 2019 and 4.26% for the second quarter of 2018. Net interest margin was stable in the first half of 2019 due to the growth rate in earning assets exceeding that of interest-bearing deposits, despite rising cost of funds. The cost of funds for the second quarter of 2019 was 92 basis points compared to 80 basis

points for the first quarter of 2019 and 43 basis points for the second quarter of 2018. The increase in cost of funds 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.

Provision for credit losses was \$624 thousand in the second quarter of 2019, compared to \$645 thousand in the first quarter of 2019 and \$103 thousand in the second quarter of 2018. The provision in the second quarter of 2019 was impacted by charge-offs on one legacy syndicated credit and additional provision related to the growing loan portfolio.

Noninterest income was \$1.8 million in the second quarter of 2019, compared to \$1.3 million in the first quarter of 2019 and \$1.6 million in the second quarter of 2018. The increase in noninterest income in the second quarter was attributable to mortgage banking income of \$407 thousand and a gain on sale of securities of \$350 thousand, as compared to mortgage banking income of \$286 thousand and no gain on sale of securities in the first quarter of 2019. In addition, the Company recorded at \$434 thousand gain on sale of \$6.4 million of government guaranteed loans sold in the second quarter of 2019 as compared to a \$428 thousand gain on sale of \$8.9 million in government guaranteed loans sold in the first quarter of 2019.

Noninterest expense was \$6.5 million in the second quarter of 2019, as compared to \$6.4 million in the first quarter of 2019 and \$5.5 million in the second quarter of 2018. The increase in non-interest expense from quarter to quarter was due to payment of executive severance.

### **Balance Sheet Highlights for the Quarter Ended June 30, 2019**

Total assets at June 30, 2019 were \$663 million, compared to \$615 million at March 31, 2019 and \$478 million at June 30, 2018. The increase in total assets as compared to the prior quarter is primarily attributable growth in loans and deposits during the quarter.

Total gross loans held for investment at June 30, 2019 were \$431 million, compared to \$405 million at March 31, 2019 and up from \$290 million at June 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 June 30, 2019 were \$73 million, compared to \$59 million at March 31, 2019 and \$33 million at June 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 June 30, 2019 were \$568 million, up from \$542 million at March 31, 2019 and up from \$419 million at June 30, 2018. The increase in total deposits is attributed to new customer growth and



an increase in seasonal deposits in the Lowcountry market. Noninterest bearing deposits make up 24.2% of total deposits as compared to 23.1% of total deposits at March 31, 2019 and 24.9% at June 30, 2018. As we target new 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 June 30, 2019 was \$10.65. CSB is currently well capitalized with a common equity tier 1 capital ratio of 12.03%, a leverage ratio of 10.98%, and a total risk-based capital ratio of 12.62%.

### **Detailed Results**

Supplementary unaudited financial statements are included for the second 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)*

	2Q19	1Q19	4Q18	3Q18	2Q18	2Q19 change vs	
						1Q19	2Q18
<b>Assets</b>							
Cash and cash equivalents	\$ 51,901	\$ 42,094	\$ 67,696	\$ 70,224	\$ 61,600	\$ 9,807	\$ (9,699)
Investment securities	58,533	60,208	60,638	61,527	63,706	(1,675)	(5,173)
Loans held for sale	73,243	59,380	32,641	32,713	32,581	13,863	40,662
Loans held for investment	430,599	405,279	376,746	347,551	289,506	25,320	141,093
Allowance for loan losses	(3,364)	(2,942)	(2,919)	(2,299)	(3,494)	(422)	130
Loans held for investment, net	427,235	402,337	373,827	345,252	286,012	24,898	141,223
Premises, furniture and equipment, net	14,047	12,086	12,047	12,141	6,574	1,961	7,473
Other real estate owned	1,854	2,002	2,117	2,619	2,912	(148)	(1,058)
Deferred tax asset	11,762	11,930	12,154	12,414	10,517	(168)	1,245
Goodwill & intangible assets (1)	6,399	6,357	6,322	6,469	146	42	6,253
Bank-owned life insurance	13,356	13,267	13,180	13,087	11,388	89	1,968
Other assets	4,326	5,663	3,489	3,114	2,367	(1,337)	1,959
<b>Total assets</b>	<b>\$ 662,656</b>	<b>\$ 615,324</b>	<b>\$ 584,111</b>	<b>\$ 559,560</b>	<b>\$ 477,803</b>	<b>\$ 47,332</b>	<b>\$ 184,853</b>

**Liabilities and stockholders' equity**

**Liabilities**

<b>Deposits</b>							
Noninterest bearing DDA	\$ 137,684	\$ 124,886	\$ 116,478	\$ 114,774	\$ 104,628	\$ 12,798	\$ 33,056
Interest bearing DDA	92,535	97,434	91,056	93,436	97,967	(4,899)	(5,432)
Savings and money market	184,369	172,456	186,237	156,617	136,485	11,913	47,884
Certificates of deposit	153,811	146,966	119,555	124,835	80,315	6,845	73,496
<b>Total Deposits</b>	<b>568,399</b>	<b>541,742</b>	<b>513,326</b>	<b>489,662</b>	<b>419,395</b>	<b>26,657</b>	<b>149,004</b>
Other borrowings	-	500	500	500	500	(500)	(500)
Other liabilities	3,912	4,161	2,454	2,445	1,613	(249)	2,299
<b>Total liabilities</b>	<b>572,311</b>	<b>546,403</b>	<b>516,280</b>	<b>492,607</b>	<b>421,508</b>	<b>25,908</b>	<b>150,803</b>

**Stockholders' equity**

Voting Common Stock	6,194	4,951	4,951	4,951	4,255	1,243	1,939
Nonvoting Common Stock	1,754	1,449	1,449	1,449	1,449	305	305
Preferred stock	-	-	-	-	-	-	-
Capital surplus	120,568	101,793	101,590	101,432	91,017	18,775	29,551
Accumulated deficit	(38,935)	(39,554)	(39,569)	(39,736)	(39,709)	619	774
Accumulated other comprehensive income	764	282	(590)	(1,143)	(717)	482	1,481
<b>Total stockholders' equity</b>	<b>90,345</b>	<b>68,921</b>	<b>67,831</b>	<b>66,953</b>	<b>56,295</b>	<b>21,424</b>	<b>34,050</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 662,656</b>	<b>\$ 615,324</b>	<b>\$ 584,111</b>	<b>\$ 559,560</b>	<b>\$ 477,803</b>	<b>\$ 47,332</b>	<b>\$ 184,853</b>

**Capital ratios (2)**

Leverage ratio	10.98%	8.97%	9.32%	9.30%	9.66%	2.01%	1.31%
CET1 risk-based capital ratio	12.03	10.07	11.12	11.58	12.29	1.96	-0.26
Tier 1 risk-based capital ratio	12.03	10.07	11.12	11.58	12.29	1.96	-0.26
Total risk-based capital ratio	12.62	10.64	11.75	12.11	13.28	1.98	-0.66

(1) Includes commercial mortgage servicing assets of \$667, \$568, \$475, \$476, and \$146, for 2Q19, 1Q19, 4Q18, 3Q18, and 2Q18, 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)*

						2Q19 change vs	
	2Q19	1Q19	4Q18	3Q18	2Q18	1Q19	2Q18
<b>Interest income</b>							
Interest on cash and cash equivalents	\$ 264	\$ 328	\$ 419	\$ 316	\$ 166	\$ (64)	\$ 98
Interest and dividends on investment securities	435	420	423	448	406	15	29
Interest and fees on loans	6,720	6,043	5,648	5,368	4,308	677	2,412
<b>Total interest income</b>	<b>7,419</b>	<b>6,791</b>	<b>6,490</b>	<b>6,132</b>	<b>4,880</b>	<b>628</b>	<b>2,539</b>
<b>Interest expense</b>							
Deposits	1,279	1,042	822	649	406	237	873
Other borrowings	10	12	10	12	13	(2)	(3)
<b>Total interest expense</b>	<b>1,289</b>	<b>1,054</b>	<b>832</b>	<b>661</b>	<b>419</b>	<b>235</b>	<b>870</b>
<b>Net interest income</b>	<b>6,130</b>	<b>5,737</b>	<b>5,658</b>	<b>5,471</b>	<b>4,461</b>	<b>393</b>	<b>1,669</b>
Provision for credit losses	624	645	583	518	103	(21)	521
<b>Net interest income after provision for credit losses</b>	<b>5,506</b>	<b>5,092</b>	<b>5,075</b>	<b>4,953</b>	<b>4,358</b>	<b>414</b>	<b>1,148</b>
<b>Noninterest income</b>							
Service charges on deposit accounts	170	182	188	167	154	(12)	16
Interchange and card fee income	203	182	176	170	172	21	31
Mortgage banking related income	410	286	270	292	387	124	23
Gain/(loss) on BOLI	88	88	90	91	82	-	6
Securities (gains)/losses	350	-	71	-	-	350	350
Other noninterest income	604	598	314	574	822	6	(218)
<b>Total noninterest income</b>	<b>1,825</b>	<b>1,336</b>	<b>1,109</b>	<b>1,294</b>	<b>1,617</b>	<b>489</b>	<b>208</b>
<b>Noninterest expense</b>							
Salaries and employee benefits	4,355	4,050	3,503	3,722	3,235	305	1,120
Occupancy	412	434	494	359	273	(22)	139
Data processing	241	250	-	214	210	(9)	31
Marketing and advertising	138	99	302	114	81	39	57
Regulatory assessment	118	123	115	109	89	(5)	29
Professional services	242	336	131	622	370	(94)	(128)
Loss on OREO, net	(2)	53	118	87	89	(55)	(91)
Net cost of operation of OREO	22	33	48	-	84	(11)	(62)
Other noninterest expense	963	1,019	1,014	1,063	1,098	(56)	(135)
<b>Total noninterest expense</b>	<b>6,489</b>	<b>6,397</b>	<b>6,083</b>	<b>6,290</b>	<b>5,529</b>	<b>92</b>	<b>960</b>
<b>Net income (loss) before taxes</b>	<b>842</b>	<b>31</b>	<b>101</b>	<b>(43)</b>	<b>446</b>	<b>811</b>	<b>396</b>
Income tax expense (benefit)	225	13	(122)	(10)	106	212	119
<b>Net income (loss)</b>	<b>\$ 617</b>	<b>\$ 18</b>	<b>\$ 223</b>	<b>\$ (33)</b>	<b>\$ 340</b>	<b>\$ 599</b>	<b>\$ 277</b>
Earnings per share - basic	\$ 0.09	\$ 0.00	\$ 0.03	\$ (0.01)	\$ 0.06	\$ 0.09	\$ 0.03
Tangible book value	\$ 84,613	\$ 63,132	\$ 61,984	\$ 60,960	\$ 56,295	\$ 21,481	\$ 28,318
Tangible book value per share	\$ 10.65	\$ 9.86	\$ 9.68	\$ 9.52	\$ 9.87	\$ 0.78	\$ 0.78
Weighted average shares outstanding	6,604,107	6,400,084	6,400,084	6,328,831	5,704,196	204,022	899,910
Shares outstanding	7,947,253	6,400,084	6,400,084	6,400,084	5,704,196	1,547,169	2,243,057

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

	Six Months Ended June 30		Change
	2019	2018	
<b>Interest income</b>			
Interest on cash and cash equivalents	\$ 592	\$ 318	\$ 274
Interest and dividends on investment securities	855	739	116
Interest and fees on loans	12,763	8,441	4,322
Total interest income	14,210	9,498	4,712
<b>Interest expense</b>			
Deposits	2,321	771	1,550
Other borrowings	22	55	(33)
Total interest expense	2,343	826	1,517
Net interest income	11,867	8,672	3,195
Provision for credit losses	1,269	593	676
Net interest income after provision for credit losses	10,598	8,079	2,519
<b>Noninterest income</b>			
Service charges on deposit accounts	352	350	2
Interchange and card fee income	385	322	63
Mortgage banking related income	696	725	(29)
Gain/(loss) on BOLI	176	162	14
Securities (gains)/losses	350	14	336
Other noninterest income	1,202	894	308
Total noninterest income	3,161	2,467	694
<b>Noninterest expense</b>			
Salaries and employee benefits	8,405	6,750	1,655
Occupancy	846	563	283
Data processing	491	421	70
Marketing and advertising	237	115	122
Regulatory assessment	241	188	53
Professional services	578	629	(51)
Loss on OREO, net	51	58	(7)
Net cost of operation of OREO	55	163	(108)
Other noninterest expense	1,982	1,979	3
Total noninterest expense	12,886	10,866	2,020
Net income (loss) before taxes	873	(320)	1,193
Income tax expense (benefit)	238	(91)	329
<b>Net income (loss)</b>	<b>\$ 635</b>	<b>\$ (229)</b>	<b>\$ 864</b>
Earnings per share - basic	\$ 0.10	\$ (0.04)	\$ 0.14

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

						2Q19 change vs	
	2Q19	1Q19	4Q18	3Q18	2Q18	1Q19	2Q18
<b>Average balances</b>							
Cash and cash equivalents	\$ 48,455	\$ 56,480	\$ 76,889	\$ 68,018	\$ 42,529	\$ (8,025)	\$ 5,926
Investment securities	59,915	60,145	60,869	62,715	64,843	(230)	(4,928)
Loans held for sale	62,762	39,156	30,370	33,530	24,496	23,606	38,266
Loans held for investment	417,342	392,772	353,744	342,993	287,244	24,570	130,098
Total earning assets	588,473	548,552	521,872	507,255	419,111	39,921	169,362
Total nonearning assets	47,964	48,296	47,348	43,507	30,105	(332)	17,859
Total assets	<b>636,437</b>	<b>596,848</b>	<b>569,220</b>	<b>550,762</b>	<b>449,216</b>	<b>39,589</b>	<b>187,221</b>
Interest bearing deposits	421,339	402,600	381,655	361,724	290,989	18,739	130,350
Other borrowings	428	532	500	500	500	(104)	(72)
Total interest bearing liabilities	421,767	403,132	382,155	362,224	291,489	18,635	130,278
Noninterest bearing deposits	137,831	121,176	116,551	120,000	100,458	16,655	37,373
Other liabilities	4,660	4,300	2,710	3,187	1,402	360	3,258
Stockholders' equity	72,179	68,240	67,804	65,351	55,867	3,939	16,312
Total liabilities and stockholders' equity	<b>636,437</b>	<b>596,848</b>	<b>569,220</b>	<b>550,762</b>	<b>449,216</b>	<b>39,589</b>	<b>187,221</b>
<b>Interest margins</b>							
Cash and cash equivalents	2.18%	2.32%	2.18%	1.86%	1.56%	-0.14%	0.62%
Investment securities	2.90%	2.79%	2.78%	2.86%	2.50%	0.11%	0.40%
Loans	5.60%	5.60%	5.88%	5.70%	5.53%	0.00%	0.07%
Total earning assets	5.04%	4.95%	4.97%	4.84%	4.66%	0.09%	0.39%
Interest bearing deposits	1.21%	1.04%	0.86%	0.72%	0.56%	0.18%	0.66%
Other borrowings	9.35%	9.03%	8.00%	9.60%	10.40%	0.32%	-1.05%
Total interest bearing liabilities	1.22%	1.05%	0.87%	0.73%	0.57%	5.04%	2.67%
Cost of total deposits (1)	0.91%	0.80%	0.66%	0.54%	0.41%	0.12%	0.50%
Cost of total funding (1)	0.92%	0.80%	0.67%	0.55%	0.43%	0.12%	0.49%
Net interest spread	3.82%	3.91%	4.10%	4.11%	4.08%	-0.09%	-0.26%
Net interest margin	4.17%	4.18%	4.34%	4.31%	4.26%	-0.02%	-0.09%
Efficiency ratio	81.57%	90.44%	89.89%	92.98%	90.97%	-8.87%	-9.40%

(1) Includes noninterest bearing deposits