CoastalSouth Bancshares, Inc.

March 23, 2018

To our Stockholders:

Please find attached the unaudited financial results for the quarter ended December 31, 2017 for CoastalSouth Bancshares, Inc. (the "Company"). The enclosed financials and accompanying narrative detail a lot of the work the management team has completed and continues to work on since the capital raise closed in late July 2017. To date, we've made considerable progress executing on the strategy highlighted in our pro forma financial plans as part of the recapitalization. It is important to note that the one-time adjustments reflected in the narrative below are generally in line with adjustments projected in our pro forma financials. However, all the one-time adjustments in the recapitalization pro forma financials were all assumed to be taken at closing of the capital raise, while certain of those one-time adjustments for Generally Accepted Accounting Principles ("GAAP") purposes are required to be reflected after the closing date.

It is also important to note that from a timing perspective, certain one-time adjustments related to the recapitalization were recorded during the fourth quarter of 2017.

<u>Financial Highlights for the Year Ended December 31, 2017</u>

- **The Company closed on its capital raise which totaled \$61.9 million in gross proceeds.** On July 28, 2017, the Company successfully completed a \$61.9 million capital raise. The proceeds were used to solidify the Company's capital position, repay all the outstanding Series A and Series B Preferred shares and related un-accrued dividend at a 10% discount, and provide additional capital to support a two-pronged strategy of growth both organically and through mergers and acquisitions.

- **The Company reconstituted its Board of Directors and completed a 1:10 reverse stock split.** In conjunction with the capital raise, the Company reconstituted its Board of Directors to align the Board with the new investor base. On September 22, 2017 the Company completed a 1:10 reverse stock split. At December 31, 2017 the Company had 5,704,196 common shares outstanding, of which 4,254,714 are voting common shares and 1,449,482 are non-voting common shares.

- **The Company introduced new organic lines of business.** During 3Q17, the Company introduced three new lines of business to support its organic growth strategy. A Government Guaranteed Lending ("GGL") group lift out was completed in 3Q17 bringing on a team of new GGL lenders and support staff. Two additional GGL lenders have been hired following the initial lift out. This group will perform GGL lending on a national basis and will be headquartered in Durham, NC. The Company also hired a leader to start up a Seniors Lending line of business focusing on lending to assisted living, skilled nursing, memory care and other Seniors Housing facilities. The Company also hired a commercial banker focused on regional and national homebuilders primarily in Georgia and South Carolina. Each of these new lines of business began originating loans during

Q417. The Company is also investing in expanding its commercial lending presence in both the Savannah, GA and Atlanta, GA markets through hiring additional lenders in those markets during in Q118.

- **Refined methodology on the Allowance for Loan and Lease Losses ("ALLL").** During 3Q17, we refined our methodology regarding the calculation of the ALLL resulting in an increase ALLL / Total Loans Held for Investment coverage ratio to 1.47% at December 31, 2017 from 0.96% at June 30, 2017. We believe these refinements to the methodology reflect a more conservative approach to expected loan losses within our portfolio.

- **Resolution of Other Real Estate Owned and Non-Performing Loans.** Other Real Estate Owned ("OREO") totaled $4.1 million at December 31, 2017 as compared to $7.7 million at June 30, 2017. The reduction was primarily attributable to more aggressive marketing tactics which resulted in $1.3 million in additional write-downs and losses on sale of on OREO balances during 3Q17 and 4Q17. In addition, the Company marketed and sold certain Non-Performing Loans ("NPLs") through DebtX in 3Q17. The sale subsequently closed in the 4Q17 and included $2.82 million in NPLs.

- **Completion of the sale of non-core components of Homeowners Mortgage Enterprises, Inc. ("HME").** On November 3rd, 2017 the Company sold HME's Third Party Origination ("TPO") business and its retail businesses in both Columbia, South Carolina and Jacksonville, Florida to Towne Mortgage Company for $200 thousand cash consideration and a 2-year trailing earnout on continued production for those businesses. This will allow the Company to focus on its core retail markets in Hilton Head and greater Beaufort County and de-risk its exposure to the mortgage industry by outsourcing most of the back-office functions including underwriting, secondary and closing to Towne or other mortgage companies. Separately, the Company sold the building that currently houses the HME headquarters, located in Columbia, SC in December 2017, recognizing a gain on sale of $86 thousand. The remaining core retail mortgage company was re-branded as CoastalStates Mortgage, Inc.

- **Reduction of Deferred Tax Asset as a result of the Tax Cuts and Jobs Act.** On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act reduced the Company's corporate federal tax rate from 34% to 21%, effective January 1, 2018. As a result, the Company was required to remeasure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which we expect them to be recovered or settled. The remeasurement of the Company's net deferred tax asset resulted in additional income tax expense of $5.53 million.

COASTALSOUTH BANCSHARES, INC.

Operating Highlights for the Quarter Ended December 31, 2017

The Company reported a net loss of $7.76 million for the fourth quarter of 2017, compared to a net loss of $414 thousand fourth quarter of 2016. The Company reported a net loss from continuing operations of $7.21 million and a net loss from discontinued operations of $544 thousand in the fourth quarter of 2017, compared to net income from continuing operations of $118 thousand and a net loss from discontinued operations of $532 thousand in the fourth quarter of 2016. Net loss from continuing operations in the fourth quarter of 2017 was significantly impacted the passing of the Tax Cuts and Jobs Act, which, as previously noted, resulted in $5.53 million adjustment to income tax expense, as well as additional credit and OREO related adjustments discussed further below. Net loss from discontinued operations is presented due to the sale of non-core components of HME described in the previous section of this letter. The remaining operating highlights describe components of income from continuing operations.

Net interest income before provision for credit losses was $4.09 million in the fourth quarter 2017, compared to $3.67 million in the fourth quarter of 2016. The cost of funds for the fourth quarter of 2017 was 30 basis points as compared to 54 basis points in the fourth quarter of 2016. The decrease in cost of funds is attributable to the early termination of $35.0 million in long-term FHLB advances which were terminated in the third quarter of 2017.

Provision for credit losses was $1.79 million in the third quarter of 2017, compared to $150 thousand in the fourth quarter of 2016. The increase in the fourth quarter of 2017 is primarily related to the following:

- $852 thousand attributed to charge-offs of deficiency notes resulting from the short sale of real estate in prior years;
- $485 thousand attributed to charge-offs of non-performing loans from the Lending Club portfolio;
- $308 thousand attributed to increases specific reserves on one lending relationship where deterioration of the borrower's global cash flow resulted in the Company remeasuring the reserve based on the market value of the underlying collateral instead of based on expected cash flows; and
- $119 thousand attributed to increases in specific reserves on non-performing single-family mortgages originated in prior years by HME resulting from decreases in market value of collateral.

Noninterest income was $989 thousand in the fourth quarter of 2017, compared to $1.05 million in the fourth quarter of 2016. The decrease in noninterest income was primarily attributable to lower mortgage production at CoastalStates Mortgage.

Noninterest expense was $6.24 million in the fourth quarter of 2017, compared to $4.24 million in the fourth quarter of 2016. The Company posted the following one-time expenses in the fourth quarter of 2017 in connection with the capital raise and related balance sheet adjustments:

- $723 thousand in OREO write-downs resulting from adjustments to more aggressively market the portfolio or to reflect changes in appraised value;
- $219 thousand in OREO losses related to the sale of $1.47 million of OREO;
- $259 thousand of expenses incurred for transaction costs and true-up of loss on sale related to the disposition of NPLs through DebtX; and
- $290 thousand of impairment recognized on certain SBA securities available for sale.

Balance Sheet

Total assets at December 31, 2017 were $532 million, up from $413.5 million at December 31, 2016. The increase in total assets is attributable to increased cash and cash equivalents as a result of additional short-term borrowings from the FHLB and an increase in federal funds purchased at quarter end.

Total deposits at December 31, 2017 were $367.2 million, down from $376.7 million at June 30, 2017 and up from $342.5 at September 30, 2016. Noninterest bearing deposits increased by $14.9 million from December 31, 2016. Noninterest bearing deposits make up 24.6% of total deposits at December 31, 2017.

Tangible book value per share at December 31, 2017 was $10.02. CoastalStates Bank is currently well capitalized with a common equity tier 1 capital ratio of 13.38%, a tier 1 leverage ratio of 10.38%, and a total risk-based capital ratio of 14.58%.

Detailed Results

Supplementary unaudited financial statements are included for the fourth quarter of 2017 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
(dollars in thousands)

		December 31, 2017
Assets		
Cash and cash equivalents	$	145,800
Investment securities		58,472
Loans held for sale		36,333
Loans held for investment		265,821
Allowance for loan losses		(3,915)
Loans held for investment, net		261,906
Premises, furniture and equipment, net		1,174
Other real estate owned		4,172
Bank-owned life insurance		11,227
Deferred tax asset		10,020
Other assets		2,864
Total assets	**$**	**531,968**
Liabilities and stockholders' equity		
Liabilities		
Deposits		
Noninterest bearing DDA	$	90,374
Interest bearing DDA		87,829
Savings and money market		111,980
Certificates of deposit		77,016
Total Deposits		367,199
Other borrowings		105,682
Other liabilities		1,948
Total liabilities		**474,829**
Stockholders' equity		
Voting Common Stock		4,255
Nonvoting Common Stock		1,449
Preferred stock		-
Capital surplus		90,743
Accumulated defecit		(39,478)
Accumulated other comprehensive income		170
Total stockholders' equity		**57,139**
Total liabilities and stockholders' equity	**$**	**531,968**

CoastalSouth Bancshares, Inc.

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

	Quarter - to - Date December 31, 2017	Year - to - Date December 31, 2017
Interest income		
Interest on cash and cash equivalents	$ 132	$ 575
Interest and dividends on investment securities	193	1,049
Interest and fees on loans	4,038	15,885
Total interest income	4,363	17,509
Interest expense		
Deposits	227	886
Other borrowings	44	830
Total interest expense	271	1,716
Net interest income	4,092	15,793
Provision for credit losses	1,787	4,452
Net interest income after provision for credit losses	2,305	11,341
Noninterest income		
Service charges on deposit accounts	164	650
Interchange Income	155	599
Securities gains/(losses)	-	-
Mortgage banking related income	497	3,170
Gain/(loss) on BOLI	57	172
Other noninterest income	116	405
Total noninterest income	989	4,996
Noninterest expense		
Salaries and employee benefits	2,917	11,277
Occupancy	359	1,377
Data processing	194	723
Marketing and advertising	44	186
FDIC assessment	(50)	464
Professional services	299	1,007
Loss on OREO, net	945	1,445
Net cost of operation of OREO	130	698
Impairment on investment securities	290	344
Other noninterest expense	1,111	4,438
Total noninterest expense	6,239	21,959
Net loss before taxes	(2,945)	(5,622)
Income tax expense (benefit)	4,268	3,510
Net loss from continuing operations	**$ (7,213)**	**$ (9,132)**
Loss from discontinued operations, net of tax	(544)	(2,681)
Net loss	**$ (7,757)**	**$ (11,813)**