



May 13, 2019

To our Shareholders:

Please find attached the unaudited financial results for the quarter ended March 31, 2019 for CoastalSouth Bancshares, Inc. (the "Company" or "COSO"), the parent company of CoastalStates Bank ("CSB" or the "Bank").

During 2018, the Company 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. In the first quarter of 2019, we are seeing continued traction in these markets through new loan production and deposit growth with new customers. The North Georgia and Lowcountry markets continue to be active banking markets as well. Additionally, during the first quarter of 2019, the Company's Mortgage Banker Finance Division had record production volume as a result of mortgage interest rates and recent additions to our sales staff.

Along with the growth in new and existing markets, the Company continues to explore products that enhance our customer experience. In March 2019, the Company launched a new Cash Value Life Insurance loan product and continues to offer other competitive loan and deposit products. In June, we will be launching our newly redesigned website, which will include an investor relations tab where shareholders will be able to access information regarding the Company. We are excited for the momentum that has built through the first quarter and expect it to continue.

Operating Highlights for the Quarter Ended March 31, 2019

The Company reported net income of \$18 thousand for the first quarter of 2019, compared to net income of \$81 thousand in the fourth quarter of 2018 and net loss of \$569 thousand in the first quarter of 2018.

Net interest income before provision for credit losses was \$5.7 million in the first quarter of 2019, compared to \$5.7 million in the fourth quarter of 2018 and \$4.2 million in the first quarter of 2018. Net interest margin for the first quarter of 2019 was 4.18% as compared to 4.34% for the fourth quarter of 2018 and 4.08% for the first quarter of 2018. The decrease in net interest margin is primarily due to the increase in costs of funds. The cost of funds for the first quarter of 2019 was 80 basis points compared to 67 basis points for the fourth quarter of 2018 and 42 basis points for the first quarter of 2018. 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 \$645 thousand in the first quarter of 2019, compared to \$583 thousand in the fourth quarter of 2018 and \$490 thousand in the first quarter of 2018. The provision in the first quarter of 2019 was impacted by charge-offs on three legacy credits and additional provision related to the growing loan portfolio.

Noninterest income was \$1.3 million in the first quarter of 2019, compared to \$1.0 million in the fourth quarter of 2018 and \$836 thousand in the first quarter of 2018. The increase in noninterest income in the fourth quarter was attributable to \$428 thousand gain on sale of \$8.9 million of government guaranteed loans sold in the first quarter of 2019 as compared to \$112 million gain on sale of \$1.2 million in government guaranteed loans sold in the fourth quarter of 2018.

Noninterest expense was \$6.4 million in the first quarter of 2019, as compared to \$6.2 million in the fourth quarter of 2018 and \$5.3 million in the first quarter of 2018. The increase in non-interest expense was due to finalization of bonus payouts and changes in compensation for merit-based increases.

Balance Sheet Highlights for the Quarter Ended March 31, 2019

Total assets at March 31, 2019 were \$615 million, compared to \$584 million at December 31, 2018 and \$442 million at March 31, 2018. 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 March 31, 2019 were \$405 million, compared to \$377 million at December 31, 2018 and up from \$283 million at March 31, 2018. The increase in loans held for investment is due to new loan production generated from all lines of business across the Company. Total loans held for sale at March 31, 2019 were \$59.3 million, compared to \$32.6 million at December 31, 2018 and \$26.3 million at March 31, 2018. The increase in loans held for sale is due to increased mortgage warehouse activity from the Mortgage Banker Finance division.

Total deposits at March 31, 2019 were \$542 million, up from \$513 million at December 31, 2018 and up from \$386 million at March 31, 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 23.1% of total deposits at March 31, 2019.



Tangible book value per share at March 31, 2019 was \$9.86. CSB is currently well capitalized with a common equity tier 1 capital ratio of 10.07%, a leverage ratio of 8.97%, and a total risk-based capital ratio of 10.64%.

Detailed Results

Supplementary unaudited financial statements are included for the first 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)

	1Q19	4Q18	3Q18	2Q18	1Q18	1Q19 change vs	
						4Q18	1Q18
Assets							
Cash and cash equivalents	\$ 42,094	\$ 67,696	\$ 70,224	\$ 61,600	\$ 37,952	\$ (25,602)	\$ 4,142
Investment securities	60,208	60,638	61,527	63,706	65,671	(430)	(5,463)
Loans held for sale	59,380	32,641	32,713	32,581	26,372	26,739	33,008
Loans held for investment	405,279	376,746	347,551	289,506	282,650	28,533	122,629
Allowance for loan losses	(2,942)	(2,919)	(2,299)	(3,494)	(4,081)	(23)	1,139
Loans held for investment, net	402,337	373,827	345,252	286,012	278,569	28,510	123,768
Premises, furniture and equipment, net	12,086	12,047	12,141	6,574	6,633	39	5,453
Other real estate owned	2,002	2,117	2,619	2,912	3,078	(115)	(1,076)
Deferred tax asset	11,930	12,154	12,414	10,517	10,321	(224)	1,609
Goodwill & intangible assets (1)	6,357	6,322	6,469	146	12	35	6,345
Bank-owned life insurance	13,267	13,180	13,087	11,388	11,307	87	1,960
Other assets	5,663	3,489	3,114	2,367	2,517	2,174	3,146
Total assets	\$ 615,324	\$ 584,111	\$ 559,560	\$ 477,803	\$ 442,432	\$ 31,213	\$ 172,892
Liabilities and stockholders' equity							
Liabilities							
Deposits							
Noninterest bearing DDA	\$ 124,886	\$ 116,478	\$ 114,774	\$ 104,628	\$ 98,362	\$ 8,408	\$ 26,524
Interest bearing DDA	97,434	91,056	93,436	97,967	87,408	6,378	10,026
Savings and money market	172,456	186,237	156,617	136,485	115,952	(13,781)	56,504
Certificates of deposit	146,966	119,555	124,835	80,315	83,034	27,411	63,932
Total Deposits	541,742	513,326	489,662	419,395	384,756	28,416	156,986
Other borrowings	500	500	500	500	500	-	-
Other liabilities	4,161	2,454	2,445	1,613	1,271	1,707	2,890
Total liabilities	546,403	516,280	492,607	421,508	386,527	30,123	159,876
Stockholders' equity							
Voting Common Stock	4,951	4,951	4,951	4,255	4,255	-	696
Nonvoting Common Stock	1,449	1,449	1,449	1,449	1,449	-	-
Preferred stock	-	-	-	-	-	-	-
Capital surplus	101,793	101,590	101,432	91,017	90,875	203	10,918
Accumulated deficit	(39,554)	(39,569)	(39,736)	(39,709)	(40,048)	15	494
Accumulated other comprehensive income	282	(590)	(1,143)	(717)	(626)	872	908
Total stockholders' equity	68,921	67,831	66,953	56,295	55,905	1,090	13,016
Total liabilities and stockholders' equity	\$ 615,324	\$ 584,111	\$ 559,560	\$ 477,803	\$ 442,432	\$ 31,213	\$ 172,892
Capital ratios (2)							
Leverage ratio	8.97%	9.32%	9.30%	9.66%	9.90%	-0.35%	-0.93%
CET1 risk-based capital ratio	10.07	11.12	11.58	12.29	12.64	-1.05	-2.57
Tier 1 risk-based capital ratio	10.07	11.12	11.58	12.29	12.64	-1.05	-2.57
Total risk-based capital ratio	10.64	11.75	12.11	13.28	13.85	-1.11	-3.21

(1) Includes commercial mortgage servicing assets of \$568, \$475, \$476, \$146, and \$12 for 1Q19, 4Q18, 3Q18, 2Q18, and 1Q18, 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)

						1Q19 change vs	
	1Q19	4Q18	3Q18	2Q18	1Q18	4Q18	1Q18
Interest income							
Interest on cash and cash equivalents	\$ 328	\$ 419	\$ 316	\$ 166	\$ 152	\$ (91)	\$ 176
Interest and dividends on investment securities	420	423	448	406	333	(3)	87
Interest and fees on loans	6,043	5,648	5,368	4,308	4,133	395	1,910
Total interest income	6,791	6,490	6,132	4,880	4,618	301	2,173
Interest expense							
Deposits	1,042	822	649	406	365	220	677
Other borrowings	12	10	12	13	42	2	(30)
Total interest expense	1,054	832	661	419	407	222	647
Net interest income	5,737	5,658	5,471	4,461	4,211	79	1,526
Provision for credit losses	645	583	518	103	490	62	155
Net interest income after provision for credit losses	5,092	5,075	4,953	4,358	3,721	17	1,371
Noninterest income							
Service charges on deposit accounts	182	188	167	154	196	(6)	(14)
Interchange and card fee income	182	176	170	172	150	6	32
Mortgage banking related income	286	270	292	387	338	16	(52)
Gain/(loss) on BOLI	88	90	91	82	80	(2)	8
Other noninterest income	598	314	574	822	72	284	526
Total noninterest income	1,336	1,038	1,294	1,617	836	298	500
Noninterest expense							
Salaries and employee benefits	4,050	3,503	3,722	3,235	3,515	547	535
Occupancy	434	358	359	273	290	76	144
Professional services	336	494	622	370	259	(158)	77
Data processing	250	302	214	210	211	(52)	39
Regulatory assessment	123	131	109	89	99	(8)	24
Marketing and advertising	99	115	114	81	34	(16)	65
Loss on OREO, net	53	118	87	89	(31)	(65)	84
Net cost of operation of OREO	33	48	-	84	79	(15)	(46)
Securities (gains)/losses	-	71	-	-	(14)	(71)	14
Other noninterest expense	1,019	1,014	1,063	1,098	881	5	138
Total noninterest expense	6,397	6,154	6,290	5,529	5,323	243	1,074
Net income (loss) before taxes	31	(41)	(43)	446	(766)	72	797
Income tax expense (benefit)	13	(122)	(10)	106	(197)	135	210
Net income (loss)	\$ 18	\$ 81	\$ (33)	\$ 340	\$ (569)	\$ (63)	\$ 587
Earnings per share - basic	\$ 0.00	\$ 0.01	\$ (0.01)	\$ 0.06	\$ (0.10)	\$ (0.01)	\$ 0.10
Tangible book value	\$ 63,132	\$ 61,984	\$ 60,960	\$ 56,295	\$ 55,905	\$ 1,148	\$ 7,227
Tangible book value per share	\$ 9.86	\$ 9.68	\$ 9.52	\$ 9.87	\$ 9.80	\$ 0.18	\$ 0.06
Weighted average shares outstanding	6,400,084	6,400,084	6,328,831	5,704,196	5,704,196	-	695,888
Shares outstanding	6,400,084	6,400,084	6,400,084	5,704,196	5,704,196	-	695,888

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

	Three Months Ended March 31		Change
	2019	2018	
Interest income			
Interest on cash and cash equivalents	\$ 328	\$ 152	\$ 176
Interest and dividends on investment securities	420	333	87
Interest and fees on loans	6,043	4,133	1,910
Total interest income	<u>6,791</u>	<u>4,618</u>	<u>2,173</u>
Interest expense			
Deposits	1,042	365	677
Other borrowings	12	42	(30)
Total interest expense	<u>1,054</u>	<u>407</u>	<u>647</u>
Net interest income	5,737	4,211	1,526
Provision for credit losses	645	490	155
Net interest income after provision for credit losses	<u>5,092</u>	<u>3,721</u>	<u>1,371</u>
Noninterest income			
Service charges on deposit accounts	182	196	(14)
Interchange and card fee Income	182	150	32
Mortgage banking related income	286	338	(52)
Gain/(loss) on BOLI	88	80	8
Other noninterest income	598	72	526
Total noninterest income	<u>1,336</u>	<u>836</u>	<u>500</u>
Noninterest expense			
Salaries and employee benefits	4,050	3,515	535
Occupancy	434	290	144
Professional services	336	259	77
Data processing	250	211	39
Regulatory assessment	123	99	24
Marketing and advertising	99	34	65
Loss on OREO, net	53	(31)	84
Net cost of operation of OREO	33	79	(46)
Securities (gains)/losses	-	(14)	14
Other noninterest expense	1,019	881	138
Total noninterest expense	<u>6,397</u>	<u>5,323</u>	<u>1,074</u>
Net income (loss) before taxes	31	(766)	797
Income tax expense (benefit)	13	(197)	210
Net income (loss)	<u>\$ 18</u>	<u>\$ (569)</u>	<u>\$ 587</u>
Earnings per share - basic	\$ 0.00	\$ (0.10)	\$ 0.10

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

	1Q19	4Q18	3Q18	2Q18	1Q18	1Q19 change vs	
						4Q18	1Q18
Average balances							
Cash and cash equivalents	\$ 56,480	\$ 76,889	\$ 68,018	\$ 42,529	\$ 45,797	\$ (20,409)	\$ 10,683
Investment securities	60,145	60,869	62,715	64,843	60,484	(724)	(339)
Loans held for sale	39,156	30,370	33,530	24,496	22,896	8,786	16,260
Loans held for investment	392,772	353,744	342,993	287,244	283,539	39,028	109,233
Total earning assets	548,552	521,872	507,255	419,111	412,716	26,680	135,836
Total nonearning assets	48,296	47,348	43,507	30,105	29,210	948	19,086
Total assets	596,848	569,220	550,762	449,216	441,927	27,628	154,921
Interest bearing deposits	402,600	381,655	361,724	290,989	283,624	20,945	118,976
Other borrowings	532	500	500	500	7,496	32	(6,964)
Total interest bearing liabilities	403,132	382,155	362,224	291,489	291,120	20,977	112,012
Noninterest bearing deposits	121,176	116,551	120,000	100,458	92,646	4,625	28,530
Other liabilities	4,300	2,710	3,187	1,402	1,615	1,590	2,685
Stockholders' equity	68,240	67,804	65,351	55,867	56,546	436	11,694
Total liabilities and stockholders' equity	596,848	569,220	550,762	449,216	441,927	27,628	154,921
Interest margins							
Cash and cash equivalents	2.32%	2.18%	1.86%	1.56%	1.33%	0.14%	1.00%
Investment securities	2.79%	2.78%	2.86%	2.50%	2.20%	0.01%	0.59%
Loans	5.60%	5.88%	5.70%	5.53%	5.39%	-0.29%	0.20%
Total earning assets	4.95%	4.97%	4.84%	4.66%	4.48%	-0.02%	0.48%
Interest bearing deposits	1.04%	0.86%	0.72%	0.56%	0.51%	0.17%	0.52%
Other borrowings	9.03%	8.00%	9.60%	10.40%	2.24%	1.03%	6.79%
Total interest bearing liabilities	1.05%	0.87%	0.73%	0.57%	0.56%	4.23%	2.31%
Cost of total deposits (1)	0.80%	0.66%	0.54%	0.41%	0.39%	0.14%	0.41%
Cost of total funding (1)	0.80%	0.67%	0.55%	0.43%	0.42%	0.14%	0.38%
Net interest spread	3.91%	4.10%	4.11%	4.08%	3.92%	-0.20%	-0.01%
Net interest margin	4.18%	4.34%	4.31%	4.26%	4.08%	-0.15%	0.10%
Efficiency ratio	90.44%	91.91%	92.98%	90.97%	105.47%	-1.46%	-15.03%

(1) Includes noninterest bearing deposits