



March 9, 2020

To our Shareholders:

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

The rapid pace of loan and deposit growth across CSB's various lines of business continued during the fourth quarter of 2019. Through the fourth quarter, CSB deposits have grown \$87.8 million, or approximately 17.1%, since December 31, 2018. This deposit growth has been led by the Lowcountry Region in Hilton Head Island, SC and Bluffton, SC, and was supplemented by its Atlanta and Savannah Regions. The Company looks forward to the opening of the Savannah branch during the second quarter of 2020, which should further establish CSB's presence in that market.

With the recent decreases in interest rates, Management continues to focus on mix of deposits and deposit pricing in order to balance and support strong loan origination activity. Additionally, with the attractive pricing of mortgage rates, the Company is poised to continue with strong production within the Bank's mortgage subsidiary, Coastal States Mortgage, and through its Mortgage Banker Finance division as refinancing demand has accelerated due to historically low interest rates.

Through the fourth quarter, CSB has grown its loan portfolio \$140.2 million, or approximately 34.2%, since December 31, 2018. CSB's loan growth has been fueled by the addition of commercial bankers in Atlanta and Savannah during 2018 and 2019, 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 December 31, 2019

The Company reported net income of \$678 thousand for the fourth quarter of 2019, compared to net income of \$1.3 million in the third quarter of 2019 and a net income of \$81 thousand in the fourth quarter of 2018. The quarterly decrease is due to increased noninterest expense, primarily attributable to losses incurred on several legacy OREO properties that were marked to facilitate final disposition and a slight increase in other professional services.

Net interest income before provision for credit losses was \$6.6 million in the fourth quarter of 2019, compared to \$6.5 million in the third quarter of 2019 and \$5.7 million in the fourth quarter of 2018. Net

interest margin for the fourth quarter of 2019 was 3.99% as compared to 4.07% for the third quarter of 2019 and 4.30% for the fourth quarter of 2018. The Bank experienced net interest margin compression during the twelve months of 2019. Net interest margin compression was attributable to rising deposit costs in the 1st half of 2019 and the Bank's decision to purposefully lag the market in lowering rates in the second half of 2019 in response to rate cuts. As a result, our team had the opportunity to solidify newer deposit relationships before adjusting to market changes and, as a result, grow deposits further in the fourth quarter. Also impacting the Bank's net interest margin were changes in loan rates. The Bank has a significant amount of loans that float monthly. A portion of these loans contain rate floors that have been reached which should reduce further rate deterioration in the event of additional rate cuts.

Net interest margin pressure was partially offset by managing the balance sheet with an overall higher loan to deposit ratio in the fourth quarter as compared to the first quarter. The cost of funds for the fourth quarter of 2019 was 98 basis points compared to 97 basis points for the third quarter of 2019 and 66 basis points for the fourth 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 interest rate environment during 2018 and the first half of 2019. With rate decreases in the second half of 2019 and into 2020, management expects the cost of funds to decrease over the next several quarters.

Provision for credit losses was a \$620 thousand during the fourth quarter of 2019, compared to recovery of \$22 thousand in the third quarter of 2019 and provision of \$583 thousand in the fourth quarter of 2018. The provision in the fourth quarter of 2019 was impacted by additional specific reserves of \$175 thousand and net charge-offs of approximately \$332 thousand in addition to provision for increased loan volume in the general reserve. In the third quarter of 2019, recoveries of \$484 thousand, resulting primarily from successful collection pursuits related to outstanding judgments, more than offset the provision required for the same period.

Noninterest income was \$1.8 million in the fourth quarter of 2019, compared to \$1.6 million in the third quarter of 2019 and \$937 thousand in the fourth quarter of 2018. The increase from the third quarter of 2019 to the fourth quarter of 2019 was primarily due to increases in gain on sale of government guaranteed loans of \$671 thousand and securities gains of \$246 thousand, offset by decreases in mortgage banking income of \$162 thousand. The increase from the fourth quarter of 2018 to the fourth quarter of 2019 was primarily due to increases in gain on sale of government guaranteed loans of \$731 thousand.

Noninterest expense was \$6.9 million in the fourth quarter of 2019, as compared to \$6.4 million in the third quarter of 2019 and \$6.1 million in the fourth quarter of 2018. The increase from the third

quarter of 2019 to the fourth quarter of 2019 was primarily due to write-downs on OREO of \$349 thousand resulting from updated valuations. Compared to the fourth quarter of 2018, the increase of \$867 thousand in noninterest expense is primarily due to the \$867 thousand increase in salaries and employees' benefits expense due to new hires during the year and payment of employee performance bonuses under incentive plans in 2019.

Balance Sheet Highlights for the Quarter Ended December 31, 2019

Total assets at December 31, 2019 were \$708 million, compared to \$691 million at September 30, 2019 and \$584 million at December 31, 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 December 31, 2019 were \$468 million, compared to \$454 million at September 30, 2019 and up from \$377 million at December 31, 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 December 31, 2019 were \$81 million, compared to \$87 million at September 30, 2019 and \$33 million at December 31, 2018. The slight decrease in loans held for sale is due to fluctuations in outstanding balances at period end; however, the average daily outstanding balance was consistent quarter to quarter.

Total deposits at December 31, 2019 were \$601 million, up from \$574 million at September 30, 2019 and up from \$513 million at December 31, 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 23.5% of total deposits as compared to 24.1% of total deposits at September 30, 2019 and 22.7% at December 31, 2018. As the Company wins new loan customers and targets 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 December 31, 2019 was \$10.89. CSB is currently well capitalized with a common equity tier 1 capital ratio of 11.72%, a leverage ratio of 10.32%, and a total risk-based capital ratio of 12.37%.



Detailed Results

Supplementary unaudited financial statements are included for the fourth 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)

						4Q19 change vs	
	4Q19	3Q19	2Q19	1Q19	4Q18	3Q19	4Q18
Assets							
Cash and cash equivalents	\$ 49,273	\$ 40,353	\$ 51,900	\$ 41,919	\$ 67,696	\$ 8,920	\$ (18,423)
Investment securities	62,496	61,408	58,533	60,208	60,638	1,088	1,858
Loans held for sale	81,243	87,255	73,244	59,380	32,641	(6,012)	48,602
Loans held for investment	468,326	453,521	430,598	405,279	376,746	14,805	91,580
Allowance for loan losses	(3,936)	(3,648)	(3,364)	(2,942)	(2,919)	(288)	(1,017)
Loans held for investment, net	464,390	449,873	427,234	402,337	373,827	14,517	90,563
Premises, furniture and equipment, net	14,280	14,137	14,047	12,086	12,047	143	2,233
Bank-owned life insurance	13,533	13,445	13,356	13,267	13,180	88	353
Deferred tax asset	10,779	11,296	11,762	11,930	12,154	(517)	(1,375)
Goodwill & intangible assets ⁽¹⁾	6,426	6,366	6,399	6,357	6,322	60	104
Other real estate owned	1,505	1,854	1,854	2,002	2,117	(349)	(612)
Other assets	4,564	4,572	4,327	5,838	3,489	(8)	1,075
Total assets	\$ 708,489	\$ 690,559	\$ 662,656	\$ 615,324	\$ 584,111	\$ 17,930	\$ 124,378

Liabilities and stockholders' equity

Liabilities

Deposits							
Noninterest bearing DDA	\$ 141,025	\$ 138,639	\$ 137,699	\$ 124,886	\$ 116,478	\$ 2,386	\$ 24,547
Interest bearing DDA	90,761	94,259	93,465	97,926	91,056	(3,498)	(295)
Savings and money market	203,402	183,678	183,424	171,964	186,237	19,724	17,165
Certificates of deposit	165,904	157,785	153,811	146,966	119,555	8,119	46,349
Total deposits	601,092	574,361	568,399	541,742	513,326	26,731	87,766
Other borrowings	10,000	20,000	-	500	500	(10,000)	9,500
Other liabilities	5,103	4,681	3,912	4,161	2,454	422	2,649
Total liabilities	616,195	599,042	572,311	546,403	516,280	17,153	99,915

Stockholders' equity

Voting common stock	6,203	6,194	6,194	4,951	4,951	9	1,252
Nonvoting common stock	1,754	1,754	1,754	1,449	1,449	-	305
Capital surplus	120,756	120,488	120,568	101,793	101,590	268	19,166
Accumulated deficit	(36,966)	(37,646)	(38,935)	(39,554)	(39,569)	680	2,603
Accumulated other comprehensive income	547	727	764	282	(590)	(180)	1,137
Total stockholders' equity	92,294	91,517	90,345	68,921	67,831	777	24,463
Total liabilities and stockholders' equity	\$ 708,489	\$ 690,559	\$ 662,656	\$ 615,324	\$ 584,111	\$ 17,930	\$ 124,378

Capital ratios ⁽²⁾

Leverage ratio	10.32%	10.54%	10.98%	8.97%	9.32%	-0.21%	1.00%
CET1 risk-based capital ratio	11.72	11.66	12.03	10.07	11.12	0.06	0.60
Tier 1 risk-based capital ratio	11.72	11.66	12.03	10.07	11.12	0.06	0.60
Total risk-based capital ratio	12.37	12.27	12.62	10.64	11.75	0.10	0.62

⁽¹⁾ Includes commercial mortgage servicing assets of \$803, \$689, \$667, \$568, and \$475 for 4Q19, 3Q19, 2Q19, 1Q19 and 4Q18, 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)

						4Q19 change vs	
	4Q19	3Q19	2Q19	1Q19	4Q18	3Q19	4Q18
Interest income							
Interest on cash and cash equivalents	\$ 167	\$ 194	\$ 264	\$ 328	\$ 419	\$ (27)	\$ (252)
Interest and dividends on investment securities	424	398	436	420	423	26	1
Interest and fees on loans	7,550	7,322	6,718	6,042	5,648	228	1,902
Total interest income	8,141	7,914	7,418	6,790	6,490	227	1,651
Interest expense							
Deposits	1,467	1,404	1,279	1,042	822	63	645
Other borrowings	43	28	10	11	10	15	33
Total interest expense	1,510	1,432	1,289	1,053	832	78	678
Net interest income	6,631	6,482	6,129	5,737	5,658	149	973
Provision (recovery) for credit losses	620	(22)	624	645	583	642	37
Net interest income after provision for credit losses	6,011	6,504	5,505	5,092	5,075	(493)	936
Noninterest income							
Gain on sale of government guaranteed loans	843	172	434	428	112	671	731
Mortgage banking related income	322	484	410	286	270	(162)	52
Interchange and card fee income	193	191	203	183	177	2	16
Service charges on deposit accounts	178	169	170	182	189	9	(11)
Securities gains (losses), net	22	268	350	-	(71)	(246)	93
Gain (loss) on BOLI	87	90	89	88	92	(3)	(5)
Other noninterest income	174	217	134	133	168	(43)	6
Total noninterest income	1,819	1,591	1,790	1,300	937	228	882
Noninterest expense							
Salaries and employee benefits	4,370	4,201	4,355	4,050	3,503	169	867
Occupancy and equipment	435	428	411	433	359	7	76
Software and other technology expense	371	373	330	332	350	(2)	21
Other professional services	410	298	240	348	509	112	(99)
Data processing	295	240	241	251	301	55	(6)
Loss on other real estate owned, net	349	-	(3)	53	118	349	231
Regulatory assessment	45	92	119	124	130	(47)	(85)
Other noninterest expense	645	779	760	771	783	(134)	(138)
Total noninterest expense	6,920	6,411	6,453	6,362	6,053	509	867
Net income (loss) before taxes	910	1,684	842	30	(41)	(774)	951
Income tax expense (benefit)	232	392	225	14	(122)	(160)	354
Net income (loss)	\$ 678	\$ 1,292	\$ 617	\$ 16	\$ 81	\$ (614)	\$ 597
Earnings per share - basic	\$ 0.09	\$ 0.16	\$ 0.09	\$ 0.00	\$ 0.01	\$ (0.08)	\$ 0.07
Tangible book value	\$ 86,671	\$ 85,840	\$ 84,613	\$ 63,132	\$ 61,984	\$ 831	\$ 24,687
Tangible book value per share	\$ 10.89	\$ 10.80	\$ 10.65	\$ 9.86	\$ 9.68	\$ 0.09	\$ 1.21
Weighted average shares outstanding	7,947,253	7,947,253	6,604,107	6,400,084	6,400,084	-	1,547,169
Shares outstanding	7,956,253	7,947,253	7,947,253	6,400,084	6,400,084	9,000	1,556,169

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

	Twelve Months Ended December 31		Change
	2019	2018	
Interest income			
Interest on cash and cash equivalents	\$ 953	\$ 1,053	\$ (100)
Interest and dividends on investment securities	1,678	1,610	68
Interest and fees on loans	27,632	19,457	8,175
Total interest income	30,263	22,120	8,143
Interest expense			
Deposits	5,192	2,242	2,950
Other borrowings	92	77	15
Total interest expense	5,284	2,319	2,965
Net interest income	24,979	19,801	5,178
Provision (recovery) for credit losses	1,867	1,694	173
Net interest income after provision for credit losses	23,112	18,107	5,005
Noninterest income			
Gain on sale of government guaranteed loans	1,877	1,222	655
Mortgage banking related income	1,502	1,287	215
Interchange and card fee income	770	668	102
Service charges on deposit accounts	699	705	(6)
Securities (gains)/losses, net	640	(57)	697
Gain/(loss) on BOLI	354	343	11
Other noninterest income	658	516	142
Total noninterest income	6,500	4,684	1,816
Noninterest expense			
Salaries and employee benefits	16,976	13,975	3,001
Occupancy and equipment	1,707	1,280	427
Software and other technology expense	1,406	1,199	207
Professional services	1,296	1,824	(528)
Data processing	1,027	937	90
Loss on other real estate owned, net	399	263	136
Regulatory assessment	380	428	(48)
Other noninterest expense	2,955	3,289	(334)
Total noninterest expense	26,146	23,195	2,951
Net income (loss) before taxes	3,466	(404)	3,870
Income tax expense (benefit)	863	(223)	1,086
Net income (loss)	\$ 2,603	\$ (181)	\$ 2,784
Earnings per share - basic	\$ 0.36	\$ (0.03)	\$ 0.39
Weighted average shares outstanding	7,230,893	5,895,374	1,335,519
Shares outstanding	7,956,253	6,400,084	1,556,169

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

	4Q19	3Q19	2Q19	1Q19	4Q18	4Q19 change vs	
						3Q19	4Q18
Average balances							
Cash and cash equivalents	\$ 42,893	\$ 43,911	\$ 48,315	\$ 56,582	\$ 76,905	\$ (1,018)	\$ (34,012)
Investment securities	62,092	58,625	59,914	60,148	60,868	3,467	1,224
Loans held for sale	86,369	85,031	62,759	39,114	30,352	1,338	56,017
Loans held for investment	468,447	445,026	417,334	392,812	353,829	23,421	114,618
Total earning assets	659,802	632,594	588,323	548,655	521,955	27,208	137,847
Total nonearning assets	47,388	48,197	47,885	48,101	47,301	(809)	87
Total assets	707,190	680,791	636,208	596,756	569,256	26,399	137,934
Interest bearing deposits	443,167	430,547	421,331	402,645	381,677	12,620	61,490
Other borrowings	19,672	10,797	429	533	498	8,875	19,174
Total interest bearing liabilities	462,839	441,344	421,760	403,177	382,176	21,495	80,663
Noninterest bearing deposits	147,450	144,283	137,843	121,257	116,620	3,167	30,830
Other liabilities	4,706	4,135	4,459	4,083	2,661	571	2,045
Stockholders' equity	92,195	91,029	72,146	68,239	67,799	1,166	24,396
Total liabilities and stockholders' equity	707,190	680,791	636,208	596,756	569,256	26,399	137,934
Interest margins							
Cash and cash equivalents	1.54%	1.75%	2.19%	2.35%	2.16%	-0.21%	-0.62%
Investment securities	2.71%	2.69%	2.92%	2.83%	2.76%	0.02%	-0.05%
Loans	5.40%	5.48%	5.61%	5.67%	5.83%	-0.08%	-0.43%
Total earning assets	4.90%	4.96%	5.06%	5.02%	4.93%	-0.07%	-0.04%
Interest bearing deposits	1.31%	1.29%	1.22%	1.05%	0.85%	0.02%	0.46%
Other borrowings	0.87%	1.03%	9.36%	8.37%	7.96%	-0.16%	-7.10%
Total interest bearing liabilities	1.29%	1.29%	1.23%	1.06%	0.86%	1.45%	3.36%
Cost of total deposits ⁽¹⁾	0.99%	0.97%	0.92%	0.81%	0.65%	0.02%	0.33%
Cost of total funding ⁽¹⁾	0.98%	0.97%	0.92%	0.81%	0.66%	0.01%	0.32%
Net interest spread	3.60%	3.68%	3.83%	3.96%	4.07%	-0.08%	-0.47%
Net interest margin	3.99%	4.07%	4.18%	4.24%	4.30%	-0.08%	-0.31%
Efficiency ratio	81.89%	79.41%	81.49%	90.41%	91.78%	2.48%	-9.89%

⁽¹⁾ Includes noninterest bearing deposits