



May 8, 2020

To our Shareholders:

Please find attached the unaudited financial results for the quarter ended March 31, 2020 for CoastalSouth Bancshares, Inc. (the "Company" or "COSO"), the parent company of Coastal States Bank ("CSB" or the "Bank").

The first quarter of 2020 has presented unique challenges for the Company and the communities we serve during the unprecedented events of the COVID-19 pandemic; however, the Bank remains a safe and sound institution. Even as the news of the pandemic and its impact began to unfold, the Bank's momentum continued and we experienced continued growth in deposits through the first quarter of approximately \$59.1 million, or 9.8%, and total gross loans of \$53.9 million, or 9.8%, during the first quarter.

As the circumstances of COVID-19 unfolded in March and throughout April, CSB was able to support our customers, communities, and employees through a number of meaningful ways.

- In March, CSB's Board of Directors suspended board fees and directed that those funds go to the CSB Community Commitment to support organizations in our communities helping to provide support and relief to those affected by the virus. The CSB Community Commitment has earmarked \$100 thousand to support these efforts and, as of the date of this letter, \$52 thousand has been deployed across 9 non-profit organizations to help those in need within our communities.
- Given the expectation for muted loan demand over the remainder of 2020, CSB made the strategic decision to devote a significant amount of resources to the SBA's Paycheck Protection Program ("PPP"). As a preferred SBA lender, the Bank has obtained SBA authorizations for over 700 PPP loans for over \$170 million as of the date of this letter. When comparing PPP loan production to the Bank's core loan portfolio, CSB is among the highest performing banks in the country. CSB's PPP production has provided liquidity to impacted companies employing almost 17,000 people throughout our markets. The Bank is continuing to make loans in round 2 of the program, while funds are available.
- CSB processed loan modifications for businesses and individuals impacted by COVID-19 to defer payments for 90 days. CSB also is temporarily waiving transaction limits on savings and money market accounts to allow customers easier access to deposits.

- In order to protect employees, the Bank's branches moved to drive-through only operation, wherever possible, and encouraged customers to use the technological tools available from the Bank in order to make banking transactions. The Bank will consider relevant guidance from the Centers for Disease Control and local and state governments when deciding to re-open.
- The Bank also provided emergency paid leave to employees unable to work due to circumstances caused by COVID-19, ahead of CARES act from the federal government, in order to protect our workforce and their families.
- CSB gave a special "Appreciation Bonus" to front-line branch employees who continued to serve customers during this crisis, as well as back-office staff members that have worked around the clock for the past two months processing PPP loan applications.

The Management team, specifically through its Pandemic Response Team ("PRT"), continues to meet regularly and monitor federal, state, and local recommendations regarding resuming normal business operations. The PRT has obtained protective equipment and cleaning agents to help protect our employees from exposure to COVID-19, but expects some modifications to the ways we interact with customers in the future as businesses reopen to ensure both our employees and customers remain safe.

Throughout this uncertainty, management has been overwhelmed by the selfless service of our employees who have continued to serve our customers, both at our branches and from their home offices. Team members have worked around the clock to ensure that PPP loans were secured for as many applicants as possible. This level of customer service has created opportunities for our bankers to attract many new customers who became disenfranchised with the lack of communication and service from other financial institutions during this pandemic.

While headwinds exist in this uncertain environment, management remains optimistic about the future of our institution. We have reacted swiftly to changing interest rates in order to help protect the Bank's net interest margin and will continue to make adjustments as needed. We are closely monitoring our loan portfolio for delinquencies and working to provide options to our customers facing financial challenges. We are still Local. And Proud of It.

Operating Highlights for the Quarter Ended March 31, 2020

The Company reported net income of \$954 thousand for the first quarter of 2020 compared to net income of \$678 thousand in the fourth quarter of 2019 and a net income of \$16 thousand in the first quarter of 2019. Net interest income after provision for credit losses in the first quarter of 2020 remained comparable to the fourth quarter of 2019. The increase in net income was primarily due to decreases in noninterest expense, resulting from changes to compensation accruals and decreases in write-downs of foreclosed assets, offset by decreases in noninterest income resulting from lower volume of sales of government guaranteed loans.

Net interest income before provision for credit losses was \$6.6 million in the first quarter of 2020, compared to \$6.6 million in the fourth quarter of 2019 and \$5.7 million in the first quarter of 2019. Net interest margin for the first quarter of 2020 was 3.74% as compared to 3.99% for the fourth quarter of 2019 and 4.24% for the first quarter of 2019. Net interest margin compression was attributable to rising deposit costs during 2019 and the Bank's decision to purposefully lag the market in lowering rates in the second half of 2019. Our team had the opportunity to solidify newer deposit relationships before adjusting to market changes and, as a result, grow deposits further in the first quarter. The cost of funds for the first quarter of 2020 was 96 basis points compared to 98 basis points for the fourth quarter of 2019 and 81 basis points for the first quarter of 2019. In March 2020, the Bank began more aggressively lowering deposit costs as the Federal Reserve decreased the federal funds rates twice, bringing index rates down significantly. Management expects the cost of funds to decrease over the next several quarters.

Provision for credit losses was \$531 thousand during the first quarter of 2020, compared to \$620 thousand in the fourth quarter of 2019 and \$645 thousand in the first quarter of 2019. The provision in the first quarter of 2020 was affected by an increase to qualitative reserves related to the impacts of COVID-19 of \$377 thousand, while provisions in the first and fourth quarters of 2019 were impacted by write-downs of legacy assets.

Noninterest income was \$1.4 million in the first quarter of 2020, compared to \$1.8 million in the fourth quarter of 2019 and \$1.3 million in the first quarter of 2019. The decrease of \$390 thousand in the first quarter of 2020 compared to the fourth quarter of 2019 was primarily attributable to a decrease in gain on sale of government guaranteed loans of \$765 thousand, partially offset by increases in securities gains of \$276 thousand and mortgage banking related income of \$117 thousand. Compared to the first quarter of 2019, the increase of \$129 thousand in noninterest income was primarily in securities gains of \$298 thousand, mortgage banking related income of \$153 thousand, and interchange and card fee income of \$34 thousand; partially offset by a decrease of gain on sale of government guaranteed loans of \$350 thousand.

Noninterest expense was \$6.2 million in the first quarter of 2020, as compared to \$6.9 million in the fourth quarter of 2019 and \$6.4 million in the first quarter of 2019. The decrease from the fourth quarter of 2019 to the first quarter of 2020 was primarily from decreases in salaries and employees' benefits expense of \$364 thousand and decreased write-downs on Other Real Estate Owned of \$308 thousand. Compared to the first quarter of 2019, the decrease of \$180 thousand in noninterest expense was distributed across multiple line items with no individually significant driver of change.

Balance Sheet Highlights for the Quarter Ended March 31, 2020

Total assets at March 31, 2020 were \$777 million, compared to \$708 million at December 31, 2019 and \$615 million at March 31, 2019. The increase in total assets as compared to the prior quarter is primarily attributable to additional investment securities and growth in loans.

Total gross loans held for investment at March 31, 2020 were \$484 million, compared to \$468 million at December 31, 2019, and up from \$405 million at March 31, 2019. 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 March 31, 2020 were \$119 million, compared to \$81 million at December 31, 2019 and \$59 million at March 31, 2019. The increase in loans held for sale is from the Mortgage Banker Finance division and is a result of increased mortgage refinance activity given the favorable interest rate environment.

Total deposits at March 31, 2020 were \$660 million, an increase from \$601 million at December 31, 2019 and from \$542 million at March 31, 2019. The increase in total deposits is attributed to continued new customer acquisition across the franchise and increases in many of our existing customer's deposit accounts. Noninterest bearing deposits make up 22.1% of total deposits as compared to 23.5% of total deposits at December 31, 2019 and 23.1% at March 31, 2019. 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 March 31, 2020 was \$11.06. CSB is currently well capitalized with a leverage ratio of 9.93%, a common equity tier 1 capital ratio of 10.82%, and a total risk-based capital ratio of 11.48%.



Detailed Results

Supplementary unaudited financial statements are included for the first quarter of 2020 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)

	1Q20	4Q19	3Q19	2Q19	1Q19	1Q20 change vs	
						4Q19	1Q19
Assets							
Cash and cash equivalents	\$ 48,250	\$ 49,273	\$ 40,353	\$ 51,900	\$ 41,919	\$ (1,023)	\$ 6,331
Investment securities	78,085	62,496	61,408	58,533	60,208	15,589	17,877
Loans held for sale	119,018	81,243	87,255	73,244	59,380	37,775	59,638
Loans held for investment	484,468	468,326	453,521	430,598	405,279	16,142	79,189
Allowance for loan losses	(4,444)	(3,936)	(3,648)	(3,364)	(2,942)	(508)	(1,502)
Loans held for investment, net	480,024	464,390	449,873	427,234	402,337	15,634	77,687
Premises, furniture and equipment, net	14,790	14,280	14,137	14,047	12,086	510	2,704
Bank-owned life insurance	13,620	13,533	13,445	13,356	13,267	87	353
Deferred tax asset	10,752	10,779	11,296	11,762	11,930	(27)	(1,178)
Goodwill & intangible assets ⁽¹⁾	6,363	6,426	6,366	6,399	6,357	(63)	6
Other real estate owned	1,464	1,505	1,854	1,854	2,002	(41)	(538)
Other assets	5,080	4,564	4,572	4,327	5,838	516	(758)
Total assets	\$ 777,446	\$ 708,489	\$ 690,559	\$ 662,656	\$ 615,324	\$ 68,957	\$ 162,122

Liabilities and stockholders' equity

Liabilities

Deposits							
Noninterest bearing DDA	\$ 145,613	\$ 141,025	\$ 138,639	\$ 137,699	\$ 124,886	\$ 4,588	\$ 20,727
Interest bearing DDA	96,394	90,761	94,259	93,465	97,926	5,633	(1,532)
Savings and money market	236,964	203,402	183,678	183,424	171,964	33,562	65,000
Certificates of deposit	181,238	165,904	157,785	153,811	146,966	15,334	34,272
Total deposits	660,209	601,092	574,361	568,399	541,742	59,117	118,467
Other borrowings	20,000	10,000	20,000	-	500	10,000	19,500
Other liabilities	3,665	5,103	4,681	3,912	4,161	(1,438)	(496)
Total liabilities	683,874	616,195	599,042	572,311	546,403	67,679	137,471

Stockholders' equity

Voting common stock	6,203	6,203	6,194	6,194	4,951	-	1,252
Nonvoting common stock	1,754	1,754	1,754	1,754	1,449	-	305
Capital surplus	120,979	120,756	120,488	120,568	101,793	223	19,186
Accumulated deficit	(36,012)	(36,966)	(37,646)	(38,935)	(39,554)	954	3,542
Accumulated other comprehensive income	648	547	727	764	282	101	366
Total stockholders' equity	93,572	92,294	91,517	90,345	68,921	1,278	24,651
Total liabilities and stockholders' equity	\$ 777,446	\$ 708,489	\$ 690,559	\$ 662,656	\$ 615,324	\$ 68,957	\$ 162,122

Capital ratios ⁽²⁾

Leverage ratio	9.93%	10.32%	10.54%	10.98%	8.97%	-0.39%	0.96%
CET1 risk-based capital ratio	10.82	11.72	11.66	12.03	10.07	-0.90	0.75
Tier 1 risk-based capital ratio	10.82	11.72	11.66	12.03	10.07	-0.90	0.75
Total risk-based capital ratio	11.48	12.37	12.27	12.62	10.64	-0.89	0.84

⁽¹⁾ Includes commercial mortgage servicing assets of \$792, \$803, \$689, \$667, and \$568 for 1Q20, 4Q19, 3Q19, 2Q19 and 1Q19, 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)

						1Q20 change vs	
	1Q20	4Q19	3Q19	2Q19	1Q19	4Q19	1Q19
Interest income							
Interest on cash and cash equivalents	\$ 237	\$ 167	\$ 194	\$ 264	\$ 328	\$ 70	\$ (91)
Interest and dividends on investment securities	456	424	398	436	420	32	36
Interest and fees on loans	7,425	7,550	7,322	6,718	6,042	(125)	1,383
Total interest income	8,118	8,141	7,914	7,418	6,790	(23)	1,328
Interest expense							
Deposits	1,535	1,467	1,404	1,279	1,042	68	493
Other borrowings	31	43	28	10	11	(12)	20
Total interest expense	1,566	1,510	1,432	1,289	1,053	56	513
Net interest income	6,552	6,631	6,482	6,129	5,737	(79)	815
Provision (recovery) for credit losses	531	620	(22)	624	645	(89)	(114)
Net interest income after provision for credit losses	6,021	6,011	6,504	5,505	5,092	10	929
Noninterest income							
Mortgage banking related income	439	322	484	410	286	117	153
Securities gains, net	298	22	268	350	-	276	298
Interchange and card fee income	217	193	191	203	183	24	34
Service charges on deposit accounts	174	178	169	170	182	(4)	(8)
Gain on BOLI	86	87	90	89	88	(1)	(2)
Gain on sale of government guaranteed loans	78	843	172	434	428	(765)	(350)
Other noninterest income	137	174	217	134	133	(37)	4
Total noninterest income	1,429	1,819	1,591	1,790	1,300	(390)	129
Noninterest expense							
Salaries and employee benefits	4,006	4,370	4,201	4,355	4,050	(364)	(44)
Occupancy and equipment	378	435	428	411	433	(57)	(55)
Software and other technology expense	326	371	373	330	332	(45)	(6)
Data processing	315	295	240	241	251	20	64
Other professional services	276	410	298	240	348	(134)	(72)
Regulatory assessment	151	45	92	119	124	106	27
Loss on other real estate owned, net	41	349	-	(3)	53	(308)	(12)
Other noninterest expense	689	645	779	760	771	44	(82)
Total noninterest expense	6,182	6,920	6,411	6,453	6,362	(738)	(180)
Net income before taxes	1,268	910	1,684	842	30	358	1,238
Income tax expense	314	232	392	225	14	82	300
Net income	\$ 954	\$ 678	\$ 1,292	\$ 617	\$ 16	\$ 276	\$ 938
Earnings per share - basic	\$ 0.12	\$ 0.09	\$ 0.16	\$ 0.09	\$ 0.00	\$ 0.03	\$ 0.12
Tangible book value	\$ 88,001	\$ 86,671	\$ 85,840	\$ 84,613	\$ 63,132	\$ 1,330	\$ 24,869
Tangible book value per share	\$ 11.06	\$ 10.89	\$ 10.80	\$ 10.65	\$ 9.86	\$ 0.17	\$ 1.20
Weighted average shares outstanding	7,956,253	7,947,253	7,947,253	6,604,107	6,400,084	9,000	1,556,169
Shares outstanding	7,956,253	7,956,253	7,947,253	7,947,253	6,400,084	-	1,556,169

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

	Three Months Ended March 31		Change
	2020	2019	
Interest income			
Interest on cash and cash equivalents	\$ 237	\$ 328	\$ (91)
Interest and dividends on investment securities	456	420	36
Interest and fees on loans	7,425	6,042	1,383
Total interest income	8,118	6,790	1,328
Interest expense			
Deposits	1,535	1,042	493
Other borrowings	31	11	20
Total interest expense	1,566	1,053	513
Net interest income	6,552	5,737	815
Provision (recovery) for credit losses	531	645	(114)
Net interest income after provision for credit losses	6,021	5,092	929
Noninterest income			
Mortgage banking related income	439	286	153
Securities gains, net	298	-	298
Interchange and card fee income	217	183	34
Service charges on deposit accounts	174	182	(8)
Gain on BOLI	86	88	(2)
Gain on sale of government guaranteed loans	78	428	(350)
Other noninterest income	137	133	4
Total noninterest income	1,429	1,300	129
Noninterest expense			
Salaries and employee benefits	4,006	4,050	(44)
Occupancy and equipment	378	433	(55)
Software and other technology expense	326	332	(6)
Data processing	315	251	64
Professional services	276	348	(72)
Regulatory assessment	151	124	27
Loss on other real estate owned, net	41	53	(12)
Other noninterest expense	689	771	(82)
Total noninterest expense	6,182	6,362	(180)
Net income (loss) before taxes	1,268	30	1,238
Income tax expense (benefit)	314	14	300
Net income (loss)	\$ 954	\$ 16	\$ 938
Earnings per share - basic	\$ 0.12	\$ 0.00	\$ 0.12
Weighted average shares outstanding	7,956,253	6,400,084	1,556,169
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)

	1Q20	4Q19	3Q19	2Q19	1Q19	1Q20 change vs	
						4Q19	1Q19
Average balances							
Cash and cash equivalents	\$ 74,870	\$ 42,893	\$ 43,911	\$ 48,315	\$ 56,582	\$ 31,977	\$ 18,288
Investment securities	69,469	62,092	58,625	59,914	60,148	7,377	9,321
Loans held for sale	83,301	86,369	85,031	62,759	39,114	(3,068)	44,187
Loans held for investment	476,274	468,447	445,026	417,334	392,812	7,827	83,462
Total earning assets	703,914	659,801	632,593	588,322	548,656	44,113	155,258
Total nonearning assets	46,867	47,389	48,198	47,886	48,100	(522)	(1,233)
Total assets	750,781	707,190	680,791	636,208	596,756	43,591	154,025
Interest bearing deposits	484,497	443,167	430,547	421,331	402,644	41,330	81,853
Other borrowings	16,044	19,672	10,797	429	533	(3,628)	15,511
Total interest bearing liabilities	500,541	462,839	441,344	421,760	403,177	37,702	97,364
Noninterest bearing deposits	152,337	147,450	144,283	137,843	121,257	4,887	31,080
Other liabilities	4,456	4,706	4,135	4,459	4,083	(250)	373
Stockholders' equity	93,447	92,195	91,029	72,146	68,239	1,252	25,208
Total liabilities and stockholders' equity	750,781	707,190	680,791	636,208	596,756	43,591	154,025
Interest margins							
Cash and cash equivalents	1.27%	1.54%	1.75%	2.19%	2.35%	-0.27%	-1.08%
Investment securities	2.64%	2.71%	2.69%	2.92%	2.83%	-0.07%	-0.19%
Loans	5.34%	5.40%	5.48%	5.61%	5.67%	-0.06%	-0.34%
Total earning assets	4.64%	4.90%	4.96%	5.06%	5.02%	-0.26%	-0.38%
Interest bearing deposits	1.27%	1.31%	1.29%	1.22%	1.05%	-0.04%	0.22%
Other borrowings	0.78%	0.87%	1.03%	9.35%	8.37%	-0.09%	-7.59%
Total interest bearing liabilities	1.26%	1.29%	1.29%	1.23%	1.06%	0.59%	2.11%
Cost of total deposits ⁽¹⁾	0.97%	0.99%	0.97%	0.92%	0.81%	-0.02%	0.16%
Cost of total funding ⁽¹⁾	0.96%	0.98%	0.97%	0.92%	0.81%	-0.02%	0.15%
Net interest spread	3.38%	3.60%	3.68%	3.83%	3.96%	-0.22%	-0.58%
Net interest margin	3.74%	3.99%	4.07%	4.18%	4.24%	-0.24%	-0.50%
Efficiency ratio	77.46%	81.89%	79.41%	81.49%	90.41%	-4.43%	-12.95%

⁽¹⁾ Includes noninterest bearing deposits