



August 11, 2018

To our Stockholders:

Please find attached the unaudited financial results for the quarter ended June 30, 2018 for CoastalSouth Bancshares, Inc. (the “Company” or “COSO”), the parent company of CoastalStates Bank (“CSB”).

We continue to make progress executing the strategy highlighted in our pro forma financial plans as part of the 2017 recapitalization and have achieved profitability in the second quarter of 2018. The Company has started to see substantial growth in new lines of business and we expect that momentum to continue in the 2nd half of 2018. Further, the Company announced the acquisition of First Citizens Financial Corporation (“FCFC”) the parent company of Foothills Community Bank (“Foothills”) on May 1, 2018 and subsequently closed the transaction July 17, 2018. The acquisition of FCFC and Foothills represents the Company’s initial expansion into North Georgia and markets surrounding Atlanta. Our management team has great familiarity with the Dawsonville and Cumming markets, as well as years of experience working with the Foothills management team. Like CSB, Foothills is LOCAL, and proud of it.

While we are continuing to evaluate additional acquisition opportunities, we have also focused a significant amount of resources on hiring outstanding commercial bankers to support our entry into new markets where there may be fewer entry points from an M&A perspective. In particular, the Bank recently entered the Savannah, Georgia market with the addition of Brian Smith, our Savannah Area Executive, and Atlanta, Georgia with the addition of Gary Dowell, our Atlanta Regional President. Recent consolidation in the large community bank space has afforded us the opportunity to tell our story to many great community bankers and we expect that our teams in each region will continue to grow over the next six months.

Operating Highlights for the Quarter Ended June 30, 2018

The Company reported net income of \$340 thousand for the second quarter of 2018, compared to a net loss of \$569 thousand in the first quarter of 2018 and net income of \$61 thousand in the second quarter of 2017. The Company reported net income from continuing operations of \$340 thousand in the second quarter of 2018, compared to net loss from continuing operations of \$569 thousand in the first quarter of 2018 and net income from continuing operations of \$585 thousand in the second quarter of 2017.

Improvement in net income from continuing operations in the second quarter of 2018 was driven by loan growth through new lines of business and the sale of government guaranteed loans which



generated notable premiums in the second quarter. The net loss from continuing operations in the first quarter of 2018 was impacted by the ramp up of these new lines business.

Net interest income before provision for credit losses was \$4.46 million in the second quarter 2018, compared to \$4.21 million in the first quarter of 2018 and \$3.93 million in the second quarter of 2017. Net interest margin for the second quarter of 2018 was 4.30% as compared to 4.13% for the first quarter of 2018 and 3.95% for the second quarter of 2017. The expansion in net interest margin is primarily attributable to the Company's asset sensitive interest rate profile and benefited from rate movements in the first half of 2018. The cost of funds for the second quarter of 2018 was 43 basis points compared to 42 basis points for the first quarter of 2018 and 53 basis points for the second quarter of 2017. The Company expects to see pressure on the cost of funds as rates continue to rise, but so far has benefited from margin expansion as a result of rising rates in the 1st half of 2018.

Provision for credit losses was \$103 thousand in the second quarter of 2018, compared to \$490 thousand in the first quarter of 2018 and \$250 thousand in the second quarter of 2017. The provision in the second quarter of 2018 was impacted by the following:

- \$515 thousand attributed to net charge-offs of non-performing loans from the Lending Club portfolio;
- (\$251) thousand provision release related to the sale of non-performing loans where the Company recognized a gain relative to specific reserve amounts.

In connection with the recapitalization of the Company in 2017, the Bank curtailed investments in its Lending Club program in July 2017. In light of the recent credit performance of this portfolio, the Bank is considering a bulk sale of its remaining Lending Club notes.

Noninterest income was \$1.62 million in the second quarter of 2018, compared to \$850 thousand in the first quarter of 2018 and \$1.45 million in the second quarter of 2017. The increase in noninterest income in the second quarter was attributable to a \$745 thousand gain on sale of \$8.40 million in government guaranteed loans sold in the second quarter of 2018.

Noninterest expense was \$5.53 million in the second quarter of 2018, as compared to \$5.38 million in the first quarter of 2018 and \$4.14 million in the second quarter of 2017. The increase in non-interest expense is primarily attributable to \$158 thousand of one-time merger related charges recognized in the second quarter of 2018 as the Company prepared for the acquisition of FCFC. Deal related expenses will continue into the third and fourth quarters of 2018 as we integrate Foothills' core operating systems.



Balance Sheet Highlights for the Quarter Ended June 30, 2018

Total assets at June 30, 2018 were \$478 million, up from \$442 million at March 31, 2018 and down from \$504 million at June 30, 2017. The increase in total assets as compared to the prior quarter is attributable to an increase in total deposits which relate to new customer acquisition as the Company is actively targeted new customers with in-market deposit specials. The increase can also be attributed to seasonality associated certain in market customers that carry larger deposit balances during summer months.

Total deposits at June 30, 2018 were \$419 million, up from \$385 million at March 31, 2018 and up from \$377 million at June 30, 2017. Noninterest bearing deposits increased by \$6.27 million from March 31, 2018 and \$7.46 million from June 30, 2017. Noninterest bearing deposits make up 24.9% of total deposits at June 30, 2018.

Tangible book value per share at June 30, 2018 was \$9.84. CSB is currently well capitalized with a common equity tier 1 capital ratio of 12.29%, a tier 1 leverage ratio of 9.66%, and a total risk-based capital ratio of 13.28%.



Detailed Results

Supplementary unaudited financial statements are included for the second quarter of 2018 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)

	2Q18	1Q18	4Q17	3Q17	2Q17	2Q18 change vs	
						1Q18	2Q17
Assets							
Cash and cash equivalents	\$ 61,600	\$ 37,953	\$ 145,800	\$ 148,516	\$ 119,839	\$ 23,647	\$ (58,239)
Investment securities	63,706	65,669	58,472	62,495	62,858	(1,963)	848
Loans held for sale	32,581	26,373	36,333	47,220	33,664	6,208	(1,083)
Loans held for investment	289,506	282,648	265,821	249,650	257,354	6,858	32,152
Allowance for loan losses	(3,494)	(4,081)	(3,915)	(3,515)	(2,615)	587	(879)
Loans held for investment, net	286,012	278,567	261,906	246,135	254,739	7,445	31,273
Premises, furniture and equipment, net	6,574	6,635	1,174	3,061	3,394	(61)	3,180
Other real estate owned	2,912	3,078	4,172	6,328	7,721	(166)	(4,809)
Deferred tax asset	10,517	10,322	10,020	13,920	11,697	195	(1,180)
Intangible assets	146	12	-	-	-	134	146
Bank-owned life insurance	11,388	11,307	11,227	6,170	6,131	81	5,257
Other assets	2,368	2,517	2,864	3,040	3,970	(149)	(1,602)
Total assets	\$ 477,804	\$ 442,433	\$ 531,968	\$ 536,885	\$ 504,013	\$ 35,371	\$ (26,209)
Liabilities and stockholders' equity							
Liabilities							
Deposits							
Noninterest bearing DDA	\$ 104,628	\$ 98,362	\$ 90,374	\$ 93,546	\$ 97,166	\$ 6,266	\$ 7,462
Interest bearing DDA	97,967	87,408	87,829	88,141	89,796	10,559	8,171
Savings and money market	136,485	115,952	111,980	111,886	122,116	20,533	14,369
Certificates of deposit	80,315	83,034	77,016	68,127	67,670	(2,719)	12,645
Total Deposits	419,395	384,756	367,199	361,700	376,748	34,639	42,647
Other borrowings	500	500	105,682	107,764	91,771	-	(91,271)
Other liabilities	1,614	1,273	1,948	2,596	1,423	341	191
Total liabilities	421,509	386,529	474,829	472,060	469,942	34,980	(48,433)
Stockholders' equity							
Voting Common Stock	4,255	4,255	4,255	4,255	36,627	-	(32,372)
Nonvoting Common Stock	1,449	1,449	1,449	1,449	-	-	1,449
Preferred stock	-	-	-	-	16,495	-	(16,495)
Capital surplus	91,017	90,875	90,743	90,518	1,138	142	89,879
Accumulated deficit	(39,709)	(40,048)	(39,478)	(31,696)	(20,349)	339	(19,360)
Accumulated other comprehensive income	(717)	(627)	170	299	160	(90)	(877)
Total stockholders' equity	56,295	55,904	57,139	64,825	34,071	391	22,224
Total liabilities and stockholders' equity	\$ 477,804	\$ 442,433	\$ 531,968	\$ 536,885	\$ 504,013	\$ 35,371	\$ (26,209)
Capital ratios ⁽¹⁾							
Leverage ratio	9.66%	9.90%	10.38%	9.72%	6.22%	-0.24%	3.44%
CET1 risk-based capital ratio	12.29	12.64	13.38	14.19	9.41	-0.35	2.88
Tier 1 risk-based capital ratio	12.29	12.64	13.38	14.19	9.41	-0.35	2.88
Total risk-based capital ratio	13.28	13.85	14.58	15.35	10.33	-0.57	2.95

(1) 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)

						2Q18 change vs	
	2Q18	1Q18	4Q17	3Q17	2Q17	1Q18	2Q17
Interest income							
Interest on cash and cash equivalents	\$ 166	\$ 152	\$ 132	\$ 188	\$ 168	\$ 14	\$ (2)
Interest and dividends on investment securities	406	333	193	328	295	73	111
Interest and fees on loans	4,308	4,133	4,038	4,127	4,004	175	304
Total interest income	4,880	4,618	4,363	4,643	4,467	262	413
Interest expense							
Deposits	406	365	227	243	223	41	183
Other borrowings	13	42	44	160	318	(29)	(305)
Total interest expense	419	407	271	403	541	12	(122)
Net interest income	4,461	4,211	4,092	4,240	3,926	250	535
Provision for credit losses	103	490	1,787	1,915	250	(387)	(147)
Net interest income after provision for credit losses	4,358	3,721	2,305	2,325	3,676	637	682
Noninterest income							
Service charges on deposit accounts	154	196	164	175	156	(42)	(2)
Interchange and card fee income	172	150	155	151	155	22	17
Securities gains/(losses)	-	14	-	-	-	(14)	-
Mortgage banking related income	387	338	497	920	998	49	(611)
Gain/(loss) on BOLI	82	80	57	39	39	2	43
Other noninterest income	822	72	116	76	97	750	725
Total noninterest income	1,617	850	989	1,361	1,445	767	172
Noninterest expense							
Salaries and employee benefits	3,235	3,515	2,917	4,204	2,088	(280)	1,147
Occupancy	273	290	359	343	339	(17)	(66)
Data processing	210	211	194	176	170	(1)	40
Marketing and advertising	81	34	44	48	36	47	45
Regulatory assessment	89	99	(50)	194	195	(10)	(106)
Professional services	370	259	299	318	252	111	118
Loss on OREO, net	89	(31)	945	382	51	120	38
Net cost of operation of OREO	84	79	130	25	227	5	(143)
Impairment on investment securities	-	-	290	54	-	-	-
Other noninterest expense	1,098	881	1,111	1,830	780	217	318
Total noninterest expense	5,529	5,337	6,239	7,574	4,138	192	1,391
Net income (loss) before taxes	446	(766)	(2,945)	(3,888)	983	1,212	(537)
Income tax expense (benefit)	106	(197)	4,268	(1,306)	398	303	(292)
Net income (loss) from continuing operations	\$ 340	\$ (569)	\$ (7,213)	\$ (2,582)	\$ 585	\$ 909	\$ (245)
Loss from discontinued operations, net of tax	-	-	(544)	(686)	(524)	-	524
Net income (loss)	\$ 340	\$ (569)	\$ (7,757)	\$ (3,268)	\$ 61	\$ 909	\$ 279
Earnings per share - basic	\$ 0.06	\$ (0.10)	\$ (1.36)	\$ (0.57)	\$ 0.01	\$ 0.16	\$ 0.05
Tangible book value per share	\$ 9.84	\$ 9.80	\$ 10.02	\$ 11.36	\$ 3.49	\$ 0.04	\$ 6.35

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

	Six Months Ended June 30		Change
	2018	2017	
Interest income			
Interest on cash and cash equivalents	\$ 318	\$ 255	\$ 63
Interest and dividends on investment securities	739	528	211
Interest and fees on loans	8,441	7,720	721
Total interest income	9,498	8,503	995
Interest expense			
Deposits	771	416	355
Other borrowings	55	626	(571)
Total interest expense	826	1,042	(216)
Net interest income	8,672	7,461	1,211
Provision for credit losses	593	750	(157)
Net interest income after provision for credit losses	8,079	6,711	1,368
Noninterest income			
Service charges on deposit accounts	350	311	39
Interchange and card fee income	322	293	29
Securities gains/(losses)	14	-	14
Mortgage banking related income	725	1,753	(1,028)
Gain/(loss) on BOLI	162	76	86
Other noninterest income	894	213	681
Total noninterest income	2,467	2,646	(179)
Noninterest expense			
Salaries and employee benefits	6,750	4,156	2,594
Occupancy	563	675	(112)
Data processing	421	353	68
Marketing and advertising	115	94	21
Regulatory assessment	188	320	(132)
Professional services	629	390	239
Loss on OREO, net	58	118	(60)
Net cost of operation of OREO	163	543	(380)
Impairment on investment securities	-	-	-
Other noninterest expense	1,979	1,497	482
Total noninterest expense	10,866	8,146	2,720
Net income (loss) before taxes	(320)	1,211	(1,531)
Income tax expense (benefit)	(91)	548	(639)
Net income (loss) from continuing operations	\$ (229)	\$ 663	\$ (892)
Loss from discontinued operations, net of tax	-	(1,451)	1,451
Net income (loss)	\$ (229)	\$ (788)	\$ 559
Earnings per share - basic	\$ (0.04)	\$ (0.08)	\$ 0.04