



May 15, 2018

To our Stockholders:

Please find attached the unaudited financial results for the quarter ended March 31, 2018 for CoastalSouth Bancshares, Inc. (the “Company” or “COSO”). To date, we continue to make progress executing on the strategy highlighted in our pro forma financial plans as part of the 2017 recapitalization. While our organic growth plans were generally about 45 to 60 days behind the 2018 plan at quarter end, our 2018 growth and profitability goals are moving in the right direction and we expect a significant ramp in profitability in the 2nd half of 2018.

Merger Announcement

We are excited to announce the signing of a definitive agreement to acquire First Citizens Financial Corporation (“FCFC”), the parent company of Foothills Community Bank (“Foothills”). At the completion of the merger, FCFC will merge into the Company and Foothills will merge into CoastalStates Bank giving the bank a meaningful presence in North Georgia. The transaction is valued at approximately \$11.6 million, based on a conversion ratio using \$15.75 per share of COSO stock. The proposed merger has been approved by the Board of Directors of both companies and is expected to close in the third quarter of 2018.

Operating Highlights for the Quarter Ended March 31, 2018

The Company reported a net loss of \$569 thousand for the first quarter of 2018, compared to a net loss of \$7.76 million in the fourth quarter of 2017 and \$849 thousand in the first quarter of 2017. The Company reported a net loss from continuing operations of \$569 thousand in the first quarter of 2018, compared to net loss from continuing operations of \$7.23 million in the fourth quarter of 2017 and net income from continuing operations of \$78 thousand in the first quarter of 2017. Net loss from continuing operations in the first quarter of 2018 was driven by additional provision for loan loss and delayed timing of production from the new Government Guaranteed Lending line of business. Net loss from continuing operations in the fourth quarter of 2017 was significantly impacted by the passing of the Tax Cuts and Jobs Act, which resulted in \$5.53 million adjustment to income tax expense.

Net interest income before provision for credit losses was \$4.21 million in the first quarter 2018, compared to \$4.09 million in the fourth quarter of 2017 and \$3.54 million in the first quarter of 2017. The cost of funds for the first quarter of 2018 was 42 basis points compared to 30 basis points for the fourth quarter of 2017 and 53 basis points for the first quarter of 2017.



Provision for credit losses was \$490 thousand in the first quarter of 2018, compared to \$1.79 million in the fourth quarter of 2017 and \$150 thousand in the first quarter of 2017. The provision in the first quarter of 2018 is primarily related to the following:

- \$496 thousand attributed to net charge-offs of non-performing loans from the Lending Club portfolio;
- \$197 thousand attributed to increases specific reserves on one lending relationship; and
- (\$124) thousand provision release related to a recovery from one lending relationship.

Noninterest income was \$850 thousand in the first quarter of 2018, compared to \$989 million in the fourth quarter of 2017 and \$1.20 million in the first quarter of 2017. The decrease in noninterest income was primarily attributable to lower mortgage production at CoastalStates Mortgage.

Noninterest expense was \$5.37 million in the first quarter of 2018, as compared to \$6.24 million in the fourth quarter of 2017 and \$4.00 million in the first quarter of 2017.

Balance Sheet Highlights for the Quarter Ended March 31, 2018

Total assets at March 31, 2018 were \$442 million, down from \$532 million at December 31, 2017 and up from \$433 million at March 31, 2017. The decrease in total assets as compared to the prior quarter is attributable to increased cash and cash equivalents obtained as a result of additional short-term borrowings from the FHLB and an increase in federal funds purchased at quarter end for tax planning purposes.

Total deposits at March 31, 2018 were \$384 million, up from \$367 million at December 31, 2017 and up from \$360 million at March 31, 2017. Noninterest bearing deposits increased by \$8 million from December 31, 2017 and \$7 million from March 31, 2017. Noninterest bearing deposits make up 25.6% of total deposits at March 31, 2018.

Tangible book value per share at March 31, 2018 was \$9.80. CoastalStates Bank is currently well capitalized with a common equity tier 1 capital ratio of 12.64%, a tier 1 leverage ratio of 9.90%, and a total risk-based capital ratio of 13.85%.



Detailed Results

Supplementary unaudited financial statements are included for the first 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)

	1Q18	4Q17	3Q17	2Q17	1Q17	1Q18 change vs	
						4Q17	1Q17
Assets							
Cash and cash equivalents	\$ 37,952	\$ 145,800	\$ 148,516	\$ 119,839	\$ 66,966	\$ (107,848)	\$ (29,014)
Investment securities	65,669	58,472	62,495	62,858	51,661	7,197	14,008
Loans held for sale	26,373	36,333	47,220	33,664	36,939	(9,960)	(10,566)
Loans held for investment	282,648	265,821	249,650	257,354	246,567	16,827	36,081
Allowance for loan losses	(4,081)	(3,915)	(3,515)	(2,615)	(2,546)	(166)	(1,535)
Loans held for investment, net	278,567	261,906	246,135	254,739	244,021	16,661	34,546
Premises, furniture and equipment, net	6,635	1,174	3,061	3,394	3,489	5,461	3,146
Other real estate owned	3,078	4,172	6,328	7,721	7,932	(1,094)	(4,854)
Deferred tax asset	10,322	10,020	13,920	11,697	11,749	302	(1,427)
Intangible assets	12	-	-	-	-	12	12
Bank-owned life insurance	11,307	11,227	6,170	6,131	6,092	80	5,215
Other assets	2,518	2,864	3,040	3,970	4,059	(346)	(1,541)
Total assets	\$ 442,433	\$ 531,968	\$ 536,885	\$ 504,013	\$ 432,908	\$ (89,535)	\$ 9,525
Liabilities and stockholders' equity							
Liabilities							
Deposits							
Noninterest bearing DDA	\$ 98,362	\$ 90,374	\$ 93,546	\$ 97,166	\$ 91,258	\$ 7,988	\$ 7,104
Interest bearing DDA	87,408	87,829	88,141	89,796	91,653	(421)	(4,245)
Savings and money market	115,952	111,980	111,886	122,116	116,101	3,972	(149)
Certificates of deposit	83,034	77,016	68,127	67,670	61,411	6,018	21,623
Total Deposits	384,756	367,199	361,700	376,748	360,423	17,557	24,333
Other borrowings	500	105,682	107,764	91,771	37,850	(105,182)	(37,350)
Other liabilities	1,273	1,948	2,596	1,423	1,104	(675)	169
Total liabilities	386,529	474,829	472,060	469,942	399,377	(88,300)	(12,848)
Stockholders' equity							
Voting Common Stock	4,255	4,255	4,255	36,627	36,627	-	(32,372)
Nonvoting Common Stock	1,449	1,449	1,449	-	-	-	1,449
Preferred stock	-	-	-	16,495	16,495	-	(16,495)
Capital surplus	90,875	90,743	90,518	1,138	1,138	132	89,737
Accumulated deficit	(40,048)	(39,478)	(31,696)	(20,349)	(20,411)	(570)	(19,637)
Accumulated other comprehensive income	(627)	170	299	160	(318)	(797)	(309)
Total stockholders' equity	55,904	57,139	64,825	34,071	33,531	(1,235)	22,373
Total liabilities and stockholders' equity	\$ 442,433	\$ 531,968	\$ 536,885	\$ 504,013	\$ 432,908	\$ (89,535)	\$ 9,525
Capital ratios (1)							
Leverage ratio	9.90%	10.38%	9.72%	6.22%	6.57%	-0.48%	3.33%
CET1 risk-based capital ratio	12.64	13.38	14.19	9.41	9.60	-0.74	3.04
Tier 1 risk-based capital ratio	12.64	13.38	14.19	9.41	9.60	-0.74	3.04
Total risk-based capital ratio	13.85	14.58	15.35	10.33	10.52	-0.73	3.33

(1) Ratios are for CoastalStates Bank, a wholly-owned subsidiary of CoastalSouth Bancshares, Inc.

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

	1Q18	4Q17	3Q17	2Q17	1Q17	1Q18 change vs	
						4Q17	1Q17
Interest income							
Interest on cash and cash equivalents	\$ 152	\$ 132	\$ 188	\$ 168	\$ 87	\$ 20	\$ 65
Interest and dividends on investment securities	333	193	328	295	233	140	100
Interest and fees on loans	4,133	4,038	4,127	4,004	3,716	95	417
Total interest income	4,618	4,363	4,643	4,467	4,036	255	582
Interest expense							
Deposits	365	227	243	223	193	138	172
Other borrowings	42	44	160	318	308	(2)	(266)
Total interest expense	407	271	403	541	501	136	(94)
Net interest income	4,211	4,092	4,240	3,926	3,535	119	676
Provision for credit losses	490	1,787	1,915	250	500	(1,297)	(10)
Net interest income after provision for credit losses	3,721	2,305	2,325	3,676	3,035	1,416	686
Noninterest income							
Service charges on deposit accounts	196	164	175	156	155	32	41
Interchange and card fee income	150	155	151	155	138	(5)	12
Securities gains/(losses)	14	-	-	-	-	14	14
Mortgage banking related income	338	497	920	998	755	(159)	(417)
Gain/(loss) on BOLI	80	57	39	39	37	23	43
Other noninterest income	72	116	76	97	116	(44)	(44)
Total noninterest income	850	989	1,361	1,445	1,201	(139)	(351)
Noninterest expense							
Salaries and employee benefits	3,515	2,917	4,204	2,088	2,068	598	1,447
Occupancy	290	359	343	339	336	(69)	(46)
Data processing	211	194	176	170	183	17	28
Marketing and advertising	34	44	48	36	58	(10)	(24)
FDIC assessment	99	(50)	194	195	125	149	(26)
Professional services	259	299	318	252	138	(40)	121
Loss on OREO, net	(31)	945	382	51	67	(976)	(98)
Net cost of operation of OREO	79	130	25	227	316	(51)	(237)
Impairment on investment securities	-	290	54	-	-	(290)	-
Other noninterest expense	881	1,111	1,830	780	717	(230)	164
Total noninterest expense	5,337	6,239	7,574	4,138	4,008	(902)	1,329
Net income (loss) before taxes	(766)	(2,945)	(3,888)	983	228	2,179	(994)
Income tax expense (benefit)	(197)	4,268	(1,306)	398	150	(4,465)	(347)
Net income (loss) from continuing operations	\$ (569)	\$ (7,213)	\$ (2,582)	\$ 585	\$ 78	\$ 6,644	\$ (647)
Loss from discontinued operations, net of tax	-	(544)	(686)	(524)	(927)	544	927
Net income (loss)	\$ (569)	\$ (7,757)	\$ (3,268)	\$ 61	\$ (849)	\$ 7,188	\$ 280
Earnings per share - basic	\$ (0.10)	\$ (1.36)	\$ (0.57)	\$ 0.01	\$ (0.09)	\$ 1.26	\$ (0.01)
Tangible book value per share	\$ 9.80	\$ 10.02	\$ 11.36	\$ 3.49	\$ 3.44	\$ (0.22)	\$ 6.36