



May 10, 2021

To our Shareholders:

CoastalSouth Bancshares, Inc. (the “Company”) is pleased to announce net income of \$3.1 million, or \$0.38 per diluted share, for the first quarter of 2021, compared to \$1.7 million net income, or \$0.21 per diluted share, for the fourth quarter of 2020. With a strong first quarter, the Company is positioned to continue its growth trajectory with increased profitability.

“Q1 was an outstanding quarter for CSB,” said Steve Stone, President and Chief Executive Officer of the Company and its wholly owned subsidiary, Coastal States Bank (“CSB”). “Our team members did an amazing job of assisting customers with second draw PPP loans, while building strong organic loan pipelines. Even more importantly, our customer acquisition and deposit growth were near record levels. With the recent announcement regarding our acquisition of Cornerstone Bank, CSB is off to a great start to 2021. The Cornerstone acquisition is expected to be accretive to our tangible book value, accretive to earnings, and accretive to franchise value.”

Highlights for the First Quarter of 2021

- **Net income of \$3.1 million and \$0.38 diluted earnings per share (“Diluted EPS”)**
- **Net interest income of \$9.8 million, a 5.5% annualized increase from December 31, 2020**
- **Originated 347 Paycheck Protection Program (“PPP”) loans totaling \$78.3 million during the quarter**
- **Grew deposits by \$128.9 million or 14.5% from the fourth quarter of 2020**
- **Efficiency ratio of 64.85% compared to 70.13% and 77.46% in the fourth and first quarters of 2020, respectively**
- **Tangible book value of \$12.56 per share, a 4.0% annualized increase from December 31, 2020**
- **On April 22, 2021 announced the acquisition of Cornerstone Bancshares, Inc.**

During the first quarter, the Company’s momentum continued as deposits grew \$128.9 million to \$1.02 billion. This growth was driven by deepening our relationships with existing customers and continuing to convert relationships with new customers that we assisted through the PPP. In the first quarter, our bankers continued to see loan pipelines rebound with commercial customers resuming projects that had been put on hold during 2020, given the uncertainty of the COVID-19 pandemic. While much focus was placed on ensuring our customers had access to the 2021 round of PPP loans, resulting in new gross originations of \$78.3 million at March 31, 2021, core loans held for investment still grew by \$13.6 million in the first quarter setting the stage for strong core loan growth in 2021.

Throughout the first quarter, the Company's credit metrics remained strong. The Bank continues to see a decline in its NPA ratio, which was down to 0.32% at the end of the first quarter of 2021 as compared to 0.40% at the end of the fourth quarter of 2020. Requests for loan modification have slowed, with only one new modification granted during the quarter related to issues stemming from the COVID-19 pandemic.

In April, the Company announced that it had entered into a definitive agreement to acquire Cornerstone Bancshares, Inc., the parent company of Cornerstone Bank. This will be the Company's second acquisition since 2017, continuing our strategic goal of growth through acquisition. Cornerstone Bank, with \$214 million in total assets as of March 31, 2021, is based in Atlanta, GA and further enhances the Company's growing footprint in this desirable market. The acquisition is expected to be accretive to the Company's tangible book value at transaction close and is expected to generate approximately 15% EPS accretion in 2022.

The Company continues to deliver on its strategic plans to build a high-performing community bank in the Southeast. Revenue growth is being realized, even in the face of a challenging interest rate environment. The Company continues to hire talented bankers to help drive organic growth. In addition, over the last several years, the Company has made strategic investments in our platform to support continued organic and acquisitive growth.

**CoastalSouth Bancshares, Inc. and Subsidiary
Consolidated Financial Highlights - Unaudited
(dollars in thousands except per share data)**

	Quarterly Trends					1Q21 change vs	
	1Q21	4Q20	3Q20	2Q20	1Q20	4Q20	1Q20
Selected Balance Sheet Data							
Total assets	\$ 1,180,621	\$ 1,147,532	\$ 1,103,885	\$ 963,883	\$ 777,446	\$ 33,089	\$ 403,175
Total gross loans (LHFS + LHFI)	870,271	815,999	807,337	744,031	603,486	54,272	266,785
Total deposits	1,020,496	891,552	856,978	789,088	660,209	128,944	360,287
Earnings Highlights							
Net income	\$ 3,074	\$ 1,709	\$ 2,097	\$ 1,608	\$ 954	\$ 1,365	\$ 2,120
Diluted earnings per share (EPS)	\$ 0.38	\$ 0.21	\$ 0.26	\$ 0.20	\$ 0.12	\$ 0.17	\$ 0.26
Net interest income	\$ 9,759	\$ 9,627	\$ 8,306	\$ 7,267	\$ 6,552	\$ 132	\$ 3,207
Performance Ratios							
Net interest margin	3.55%	3.59%	3.44%	3.36%	3.74%	-0.04%	-0.19%
Net interest spread	3.37%	3.39%	3.23%	3.10%	3.38%	-0.02%	-0.01%
Cost of total deposits	0.41%	0.48%	0.57%	0.75%	0.97%	-0.07%	-0.56%
Cost of total funding	0.50%	0.56%	0.57%	0.72%	0.96%	-0.06%	-0.46%
Efficiency ratio	64.85%	70.13%	65.31%	68.88%	77.46%	-5.28%	-12.61%
Loan-to-deposit ratio	85.28%	91.53%	94.21%	94.29%	91.41%	-6.25%	-6.13%
Return on (annualized):							
Average assets (ROAA) ²	1.07%	0.61%	0.82%	0.70%	0.51%	0.46%	0.55%
Average tangible assets (ROTA) ²	1.07%	0.61%	0.83%	0.71%	0.51%	0.46%	0.56%
Average tangible common equity (ROTCE) ²	11.96%	6.74%	9.01%	7.23%	4.37%	5.22%	7.59%
Tangible common equity to tangible assets ²	8.54%	8.46%	8.58%	9.55%	11.42%	0.09%	-2.88%
Tangible book value per share ²	\$ 12.56	\$ 12.08	\$ 11.79	\$ 11.49	\$ 11.06	\$ 0.48	\$ 1.50
Other Operating Measures¹:							
Pre-tax pre-provision net revenue (PPNR)	4,045	3,503	3,488	2,667	1,799	\$ 542	\$ 2,246
PPNR ROAA	1.40%	1.24%	1.37%	1.17%	0.96%	0.16%	0.44%
Net interest margin excluding PPP income	3.40%	3.38%	3.60%	3.50%	3.74%	0.02%	-0.35%

⁽¹⁾ Non-GAAP measure, see "GAAP to Non-GAAP Reconciliation" schedule.

⁽²⁾ The Company defines tangible assets as total assets less intangible assets (excluding mortgage servicing assets), and tangible common equity as total shareholders' equity less intangible assets (excluding mortgage servicing assets)

Financial Results

Income Statement

Net income was \$3.1 million for the first quarter of 2021 compared to a net income of \$1.7 million in the fourth quarter of 2020 and a net income of \$954 thousand in the first quarter of 2020. Compared to the fourth quarter of 2020, the increase in net income was primarily attributable to lower provision for credit losses during the quarter as there were additional reserves related to COVID-19 during the fourth quarter. Compared to the first quarter of 2020, the increase in net income was primarily attributable to an increase in net interest income; offset by an increase in noninterest expense primarily salaries and employee benefits in line with growth in revenues.

Interest income was \$11.1 million in the first quarter of 2021, compared to \$11.1 million in the fourth quarter of 2020 and \$8.1 million in the first quarter of 2020. The first quarter of 2021 compared to the fourth quarter of 2020 remained stable. The increase in the first quarter of 2021 compared to the first quarter of 2020 is due to growth in the loan portfolio coupled with the expansion of the investment portfolio throughout 2020.

Interest expense was \$1.3 million in the first quarter of 2021, compared to \$1.4 million in the fourth quarter of 2020 and \$1.6 million in the first quarter of 2020. Compared to the fourth quarter of 2020, the decrease in interest expense is due to a 10-basis point decrease in the cost of interest-bearing deposits. Compared to the same quarter last year, the decrease in interest expense is due to a 71-basis point decrease in interest bearing liabilities, offset by costs for subordinated debt that was issued in the third quarter of 2020.

Net interest margin for the first quarter of 2021 was 3.55%, compared to 3.59% for the fourth quarter of 2020 and 3.74% for the first quarter of 2020. Compared to the fourth quarter of 2020, net interest margin compressed by 4 basis points, with some compression related to higher recognition of origination fees of PPP loans in the fourth quarter of 2020. Compared to the same quarter last year, net interest margin was compressed by 19 basis points and was attributable to lower market interest rates following the Federal Reserve's rate adjustments at the end of the first quarter of 2020, which impacted the yield on certain variable rate loans. To combat margin compression, management made changes to lower deposit rates given the changes in the interest rate environment. Management also re-deployed excess liquidity into additional earning assets, such as investment securities, loan purchases, and a resell agreement.

The cost of funds for the first quarter of 2021 was 50 basis points compared to 56 basis points for the fourth quarter of 2020 and 96 basis points for the first quarter of 2020. Cost of funds decline in both periods is primarily driven by a decrease in costs of interest-bearing deposits.

The cost of deposits was 41 basis points in the first quarter of 2021 as compared to 48 basis points in the fourth quarter of 2020 and 97 basis points in the first quarter of 2020. Beginning in the first quarter of 2020, the Bank began lowering deposit rates as the Federal Reserve decreased the federal funds rates twice, bringing index rates down to near zero. Management expects the cost of deposits to modestly decline over the next several quarters as pricing changes continue to take effect.

Provision for credit losses was \$5 thousand during the first quarter of 2021, compared to \$1.4 million in the fourth quarter of 2020 and \$531 thousand in the first quarter of 2020. There were no additional reserves required related to the impact of COVID-19 in the first quarter of 2021, where significant provisions were recorded in the fourth quarter of 2020 and first quarter of 2020 for \$593 thousand and \$377 thousand, respectively. Additionally, general reserves were increased in the fourth quarter of 2020

due to loan portfolio growth. Charge-off and recovery activity was not significant during the first quarter of 2021, fourth quarter of 2020, or first quarter of 2020.

Noninterest income was \$1.8 million in the first quarter of 2021, compared to \$2.1 million in the fourth quarter of 2020 and \$1.4 million in the first quarter of 2020. The decrease of \$352 thousand during the first quarter of 2021 compared to the fourth quarter of 2020 was primarily due to a \$302 thousand gain on sale of securities during the fourth quarter of 2020. There was no sale of securities during the first quarter of 2021. Compared to the first quarter of 2020, the increase in noninterest income of \$321 thousand was primarily attributable to the increase in mortgage banking income of \$237 thousand, government guaranteed loans of \$168 thousand, and other noninterest income of \$177 thousand; offset by decreases in other categories, primarily gains in sale of securities.

Noninterest expense was \$7.5 million during the first quarter of 2021, as compared to \$8.2 million during the fourth quarter of 2020 and \$6.2 million during the first quarter of 2020. The decrease of \$762 thousand during the first quarter of 2021 as compared to the fourth quarter of 2020 was primarily due to a \$523 thousand decrease in salaries and employee's benefits due to changes in compensation related accruals in the fourth quarter of 2020 and \$251 thousand in other professional services. Compared to the first quarter of 2020, the increase of \$1.3 million in noninterest expense was also attributable to an increase of \$935 thousand in salaries and employees' benefits, primarily due to performance-based compensation programs, and software and other technology expense related to the enhancement of information technology infrastructure, other professional services, and occupancy and equipment expenses related to capital projects completed during 2021.

Income tax expense was \$966 thousand in the first quarter of 2021, as compared to \$409 thousand in the fourth quarter of 2020, and \$314 thousand in the first quarter of 2020. The increase in income tax expense is primarily attributable to increased earnings.

Balance Sheet

Total assets as of March 31, 2021 were \$1.181 billion, up from \$1.148 billion at December 31, 2020 and \$777 million at March 31, 2020. Total assets increased moderately by approximately \$33 million as compared to the prior quarter and is primarily attributable to growth in loans and investment securities, which was fueled by deposit growth.

Cash and cash equivalents at March 31, 2021 was \$124 million, compared to \$157 million at December 31, 2020, and up from \$48 million at March 31, 2020. The decrease in cash and cash equivalents as compared to the prior quarter is primarily attributable to a decrease in federal funds sold as the funds are deployed in other interest earning assets.

Investment securities at March 31, 2021 were \$130 million, compared to \$121 million at December 31, 2020, and up from \$78 million at March 31, 2020. As interest rates have declined significantly starting in 2020, management has continued to look to deploy liquidity into higher interest earning assets through the securities portfolio.

Total gross loans held for investment at March 31, 2021 were \$754 million, compared to \$703 million at December 31, 2020, and up from \$484 million at March 31, 2020. The quarterly increase in loans held for investment of \$51 million is attributed to \$14 million in net new core loans and \$37 million in net new PPP loans originated during the quarter. Total loans held for sale at March 31, 2021 were \$116 million, compared to \$113 million at December 31, 2020 and \$119 million at March 31, 2020.

The allowance for loan losses (“ALL”) at March 31, 2021 was \$7.1 million, compared to \$7.0 million at December 31, 2020, and from \$4.4 million at March 31, 2020. The balance in the first quarter of 2021 was relatively stable compared to the fourth quarter of 2020. Compared to the first quarter of 2020, the increase in provision is primarily related to the impacts of COVID-19 and growth of the loan portfolio. Total ALLL to total LHFI excluding PPP was 1.19% at March 31, 2021 as compared to 1.21% and 0.92% at December 31, 2020 and March 31, 2020, respectively. Management will continue to monitor the impacts COVID-19 pandemic and progress of economic recovery as they assess the appropriate level of reserves.

Nonaccrual loans decreased by \$784 thousand to \$2.7 million at March 31, 2021 from \$3.5 million at December 31, 2020. The decrease in nonaccrual loans was due to the payoff in full of one relationship due to the borrower’s liquidation of collateral. Troubled debt restructures have remained stable over the last year. Total nonperforming loans to gross LHFI outstanding were 0.39% at March 31, 2021, 0.53% at December 31, 2020, and 1.02% at March 31, 2020.

Nonperforming assets to total assets decreased by 8 and 50 basis points to 0.32% at March 31, 2021, compared to 0.40% at December 31, 2020, and 0.82% at March 31, 2020, respectively. There was no change in the balance of Other real estate owned of \$810 thousand between the first quarter of 2021 and the fourth quarter of 2020. A decrease of \$654 thousand occurred from the first quarter of 2020 to the first quarter of 2021 due to liquidation of properties during 2020.

Total deposits at March 31, 2021 were \$1.020 billion, an increase from \$892 million at December 31, 2020 and from \$660 million at March 31, 2020. The increase in total deposits is attributable to continued new customer acquisition across the franchise and increases in many of our existing customer’s deposit accounts as a result of the PPP program. Noninterest bearing deposits accounted for 27.9% of total deposits as compared to 25.7% of total deposits at December 31, 2020 and 22.1% at March 31, 2020. 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.

Federal Reserve Bank advances associated with the Paycheck Protection Program Liquidity Facility (“PPPLF”) at March 31, 2021 were \$11 million, compared to \$111 million at December 31, 2020. The decrease is attributable to payoff of those advances during the quarter due to the inflow of customer deposits during the first quarter of 2021. There were no PPPLF advances in the first quarter of 2020.

Subordinated debt, net of debt issuance costs, remained at approximately \$14.5 million at March 31, 2021 and December 31, 2020. There was no subordinated debt at March 31, 2020.

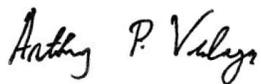
Federal Home Loan Bank advances (“FHLB”) remained steady at \$20 million at March 31, 2021, December 31, 2020, and March 31, 2020.

Tangible book value per share at March 31, 2021 was \$12.56. CSB is currently well capitalized with a leverage ratio of 8.87%, a common equity tier 1 capital ratio of 11.60%, and a total risk-based capital ratio of 12.45%.

Detailed Results

Supplementary unaudited financial statements are included for the first quarter of 2021 in the following pages. As always, I encourage you to contact me with any questions or comments.

Sincerely,



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.

The risks relating to the Cornerstone Bancshares, Inc. proposed merger include, without limitation: the timing to consummate the proposed merger; the risk that a condition to closing of the proposed merger may not be satisfied; the risk that the merger is not completed at all; the diversion of management time on issues related to the proposed merger; unexpected transaction costs, including the costs of integrating operations; the risks that the businesses will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; the potential failure to fully or timely realize expected revenues and revenue synergies, including as the result of revenues following the merger being lower than expected; the risk of deposit and customer attrition; any changes in deposit mix; unexpected operating and other costs, which may differ or change from expectation; the risk of customer and employee loss and business disruptions, including, without limitation, as the result of difficulties in maintaining relationships with employees; as well as increased competitive pressures on solicitations of customers by competitors.

Explanation of Certain Unaudited Non-GAAP Financial Measures

This presentation contains financial information determined by methods other than Generally Accepted Accounting Principles (“GAAP”). Management uses these non-GAAP financial measures in its analysis of the Company’s performance and believes these presentations provide useful supplemental information, and a clearer understanding of the Company’s performance. The Company believes the non-GAAP measures enhance investors’ understanding of the Company’s business and performance and if not provided would be requested by the investor community. These measures are also useful in understanding performance trends and facilitate comparisons with the performance of other financial institutions. The limitations associated with operating measures are the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might define or calculate these measures differently. The Company provides reconciliations between GAAP and these non-GAAP measures. These disclosures should not be considered an alternative to GAAP.

CoastalSouth Bancshares, Inc. and Subsidiary
Consolidated Balance Sheet - Unaudited
(dollars in thousands)

						1Q21 change vs	
	1Q21	4Q20	3Q20	2Q20	1Q20	4Q20	1Q20
Assets							
Cash and due from banks	\$ 4,941	\$ 7,419	\$ 438	\$ 5,440	\$ 18,021	\$ (2,478)	\$ (13,080)
Federal funds sold and resell agreements	119,512	149,584	123,050	46,988	30,229	(30,072)	89,283
Investment securities	129,804	121,207	120,304	119,519	78,085	8,597	51,719
Loans held for sale (LHFS)	116,334	113,481	127,463	109,749	119,018	2,853	(2,684)
Loans held for investment (LHFI)	753,937	702,518	679,874	634,282	484,468	51,419	269,469
Allowance for loan losses	(7,060)	(7,041)	(5,703)	(4,959)	(4,444)	(19)	(2,616)
Loans held for investment, net	746,877	695,477	674,171	629,323	480,024	51,400	266,853
Bank-owned life insurance	19,070	18,950	18,827	13,706	13,620	120	5,450
Premises, furniture and equipment, net	16,743	16,357	16,216	15,354	14,790	386	1,953
Deferred tax asset	9,922	10,111	9,788	10,103	10,752	(189)	(830)
Goodwill & intangible assets ⁽¹⁾	6,274	6,322	6,301	6,325	6,363	(48)	(89)
Other real estate owned	810	810	1,251	932	1,464	-	(654)
Other assets	10,334	7,814	6,076	6,444	5,080	2,520	5,254
Total assets	\$ 1,180,621	\$ 1,147,532	\$ 1,103,885	\$ 963,883	\$ 777,446	\$ 33,089	\$ 403,175
Liabilities and stockholders' equity							
Liabilities							
Deposits							
Noninterest bearing DDA	\$ 285,005	\$ 229,361	\$ 256,820	\$ 219,477	\$ 145,613	\$ 55,644	\$ 139,392
Interest bearing DDA	188,964	134,934	137,804	117,085	96,394	54,030	92,570
Savings and money market	409,882	377,381	307,098	275,997	236,964	32,501	172,918
Certificates of deposit	136,645	149,876	155,256	176,529	181,238	(13,231)	(44,593)
Total deposits	1,020,496	891,552	856,978	789,088	660,209	128,944	360,287
Federal Home Loan Bank advances	20,000	20,000	20,000	40,000	20,000	-	-
Subordinated debt, net	14,551	14,539	14,556	-	-	12	14,551
Federal Reserve Bank PPPLF advances	11,145	111,497	107,606	33,717	-	(100,352)	11,145
Other liabilities	8,635	7,956	5,120	4,164	3,665	679	4,970
Total liabilities	1,074,827	1,045,544	1,004,260	866,969	683,874	29,283	390,953
Stockholders' equity							
Voting common stock	6,003	6,003	5,993	5,966	6,203	-	(200)
Nonvoting common stock	1,991	1,991	1,991	1,991	1,754	-	237
Capital surplus	122,070	121,756	121,442	121,214	120,979	314	1,091
Accumulated deficit	(27,525)	(30,598)	(32,307)	(34,405)	(36,012)	3,073	8,487
Accumulated other comprehensive income	3,255	2,836	2,506	2,148	648	419	2,607
Total stockholders' equity	105,794	101,988	99,625	96,914	93,572	3,806	12,222
Total liabilities and stockholders' equity	\$ 1,180,621	\$ 1,147,532	\$ 1,103,885	\$ 963,883	\$ 777,446	\$ 33,089	\$ 403,175
Capital ratios ⁽²⁾							
Leverage ratio	8.87%	9.15%	9.62%	9.15%	9.93%	-0.29%	-1.06%
CET1 risk-based capital ratio	11.60	11.46	11.94	11.70	10.82	0.14	0.78
Tier 1 risk-based capital ratio	11.60	11.46	11.94	11.70	10.82	0.14	0.78
Total risk-based capital ratio	12.45	12.34	12.70	12.44	11.48	0.11	0.97

⁽¹⁾ Includes commercial mortgage servicing assets of \$897, \$899, \$830, \$805, and \$792 for 1Q21, 4Q20, 3Q20, 2Q20, and 1Q20, 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)

						1Q21 change vs	
	1Q21	4Q20	3Q20	2Q20	1Q20	4Q20	1Q20
Interest income							
Interest on cash and due from banks	\$ 1	\$ 1	\$ 2	\$ 9	\$ 84	\$ -	\$ (83)
Interest on federal funds sold and resell agreements	285	282	70	7	153	3	132
Interest and dividends on investment securities	744	720	766	616	456	24	288
Interest and fees on loans	10,024	10,052	8,776	8,099	7,425	(28)	2,599
Total interest income	11,054	11,055	9,614	8,731	8,118	(1)	2,936
Interest expense							
Deposits	956	1,054	1,145	1,360	1,535	(98)	(579)
Other borrowings	339	374	163	104	31	(35)	308
Total interest expense	1,295	1,428	1,308	1,464	1,566	(133)	(271)
Net interest income	9,759	9,627	8,306	7,267	6,552	132	3,207
Provision for credit losses	5	1,385	718	602	531	(1,380)	(526)
Net interest income after provision for credit losses	9,754	8,242	7,588	6,665	6,021	1,512	3,733
Noninterest income							
Mortgage banking related income	676	646	604	461	439	30	237
Interchange and card fee income	257	187	176	162	217	70	40
Gain on sale of government guaranteed loans	246	443	291	451	78	(197)	168
Service charges on deposit accounts	138	143	118	112	174	(5)	(36)
Gain on BOLI	119	122	121	87	86	(3)	33
Securities gains, net	-	302	348	-	298	(302)	(298)
Other noninterest income	314	259	90	31	137	55	177
Total noninterest income	1,750	2,102	1,748	1,304	1,429	(352)	321
Noninterest expense							
Salaries and employee benefits	4,941	5,464	4,299	3,706	4,006	(523)	935
Occupancy and equipment	509	439	421	406	378	70	131
Software and other technology expense	444	330	329	365	326	114	118
Other professional services	387	638	285	270	276	(251)	111
Data processing	331	316	315	310	315	15	16
Regulatory assessment	209	168	137	166	151	41	58
Loss on other real estate owned, net	-	135	1	51	41	(135)	(41)
Other noninterest expense	643	736	779	630	689	(93)	(46)
Total noninterest expense	7,464	8,226	6,566	5,904	6,182	(762)	1,282
Net income before taxes	4,040	2,118	2,770	2,065	1,268	1,922	2,772
Income tax expense	966	409	673	457	314	557	652
Net income	\$ 3,074	\$ 1,709	\$ 2,097	\$ 1,608	\$ 954	\$ 1,365	\$ 2,120
Earnings per share - basic	\$ 0.38	\$ 0.21	\$ 0.27	\$ 0.20	\$ 0.12	\$ 0.17	\$ 0.26
Earnings per share - diluted	\$ 0.38	\$ 0.21	\$ 0.26	\$ 0.20	\$ 0.12	\$ 0.17	\$ 0.26
Tangible book value	\$ 100,417	\$ 96,565	\$ 94,154	\$ 91,394	\$ 88,001	\$ 3,852	\$ 12,416
Tangible book value per share	\$ 12.56	\$ 12.08	\$ 11.79	\$ 11.49	\$ 11.06	\$ 0.48	\$ 1.50
Shares outstanding	7,993,653	7,993,653	7,983,753	7,956,253	7,956,253	-	37,400
Weighted average shares - basic	7,993,653	7,983,753	7,966,274	7,956,253	7,956,253	9,900	37,400
Weighted average shares - diluted	8,011,481	7,992,332	7,988,490	7,972,763	7,976,860	19,149	34,621

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

	Three Months Ended March 31		Change
	2021	2020	
Interest income			
Interest on cash and due from banks	\$ 1	\$ 84	\$ (83)
Interest on federal funds sold and resell agreements	285	153	132
Interest and dividends on investment securities	744	456	288
Interest and fees on loans	10,024	7,425	2,599
Total interest income	11,054	8,118	2,936
Interest expense			
Deposits	956	1,535	(579)
Other borrowings	339	31	308
Total interest expense	1,295	1,566	(271)
Net interest income	9,759	6,552	3,207
Provision for credit losses	5	531	(526)
Net interest income after provision for credit losses	9,754	6,021	3,733
Noninterest income			
Mortgage banking related income	676	439	237
Interchange and card fee income	257	217	40
Gain on sale of government guaranteed loans	246	78	168
Service charges on deposit accounts	138	174	(36)
Gain on BOLI	119	86	33
Securities gains, net	-	298	(298)
Other noninterest income	314	137	177
Total noninterest income	1,750	1,429	321
Noninterest expense			
Salaries and employee benefits	4,941	4,006	935
Occupancy and equipment	509	378	131
Software and other technology expense	444	326	118
Professional services	387	276	111
Data processing	331	315	16
Regulatory assessment	209	151	58
Loss on other real estate owned, net	-	41	(41)
Other noninterest expense	643	689	(46)
Total noninterest expense	7,464	6,182	1,282
Net income before taxes	4,040	1,268	2,772
Income tax expense	966	314	652
Net income	\$ 3,074	\$ 954	\$ 2,120
Earnings per share - basic	\$ 0.38	\$ 0.12	\$ 0.26
Earnings per share - diluted	\$ 0.38	\$ 0.12	\$ 0.26
Shares outstanding	7,993,653	7,956,253	37,400
Weighted average shares - basic	7,993,653	7,956,253	37,400
Weighted average shares - diluted	8,011,481	7,976,860	34,621

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

	Quarterly trend					1Q21 change vs	
	1Q21	4Q20	3Q20	2Q20	1Q20	4Q20	1Q20
Average balances							
Cash and cash equivalents	\$ 8,333	\$ 8,817	\$ 6,176	\$ 23,257	\$ 29,472	\$ (484)	\$ (21,139)
Federal funds sold and resell agreements	133,167	121,233	56,184	55,890	45,398	11,934	87,769
Investment securities	127,926	124,010	120,837	96,161	69,469	3,916	58,457
Loans held for sale	122,878	128,112	114,437	93,955	83,301	(5,234)	39,577
Loans held for investment	723,559	685,751	661,665	601,472	476,274	37,808	247,285
Total earning assets	1,115,863	1,067,923	959,299	870,735	703,914	47,940	411,949
Total nonearning assets	54,081	52,754	52,630	48,406	46,867	1,327	7,214
Total assets	\$ 1,169,944	\$ 1,120,677	\$ 1,011,929	\$ 919,141	\$ 750,781	\$ 49,267	\$ 419,163
Interest bearing deposits	\$ 686,949	\$ 639,995	\$ 577,146	\$ 535,696	\$ 484,497	\$ 46,954	\$ 202,452
Other borrowings	115,974	142,173	104,501	94,299	16,044	(26,199)	99,930
Total interest bearing liabilities	802,923	782,168	681,647	629,995	500,541	20,755	302,382
Noninterest bearing deposits	254,650	232,377	227,902	190,342	152,337	22,273	102,313
Other liabilities	8,143	5,327	4,298	3,818	4,456	2,816	3,687
Stockholders' equity	104,228	100,805	98,082	94,986	93,447	3,423	10,781
Total liabilities and stockholders' equity	\$ 1,169,944	\$ 1,120,677	\$ 1,011,929	\$ 919,141	\$ 750,781	\$ 49,267	\$ 419,163
Interest margins							
Cash and due from banks	0.05%	0.05%	0.13%	0.16%	1.15%	0.00%	-1.10%
Federal funds sold and resell agreements	0.87%	0.93%	0.50%	0.05%	1.36%	-0.06%	-0.49%
Investment securities	2.36%	2.31%	2.52%	2.58%	2.64%	0.05%	-0.28%
Loans	4.80%	4.91%	4.50%	4.68%	5.34%	-0.11%	-0.54%
Total earning assets	4.02%	4.12%	3.99%	4.03%	4.64%	-0.10%	-0.62%
Interest bearing deposits	0.56%	0.66%	0.79%	1.02%	1.27%	-0.10%	-0.71%
Other borrowings	1.19%	1.05%	0.62%	0.44%	0.78%	0.14%	0.41%
Total interest bearing liabilities	0.65%	0.73%	0.76%	0.93%	1.26%	-2.56%	-0.36%
Cost of total deposits ⁽¹⁾	0.41%	0.48%	0.57%	0.75%	0.97%	-0.07%	-0.56%
Cost of total funding ⁽¹⁾	0.50%	0.56%	0.57%	0.72%	0.96%	-0.06%	-0.46%
Net interest spread	3.37%	3.39%	3.23%	3.10%	3.38%	-0.02%	-0.01%
Net interest margin	3.55%	3.59%	3.44%	3.36%	3.74%	-0.04%	-0.19%
Yield on loans excluding PPP	4.85%	4.92%	4.96%	5.16%	5.34%	-0.06%	-0.48%

⁽¹⁾ Includes noninterest bearing deposits

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

	1Q21			4Q20			1Q20		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Earning assets:									
Cash and due from banks	\$ 8,333	\$ 1	0.05%	\$ 8,817	\$ 1	0.05%	\$ 29,472	\$ 84	1.15%
Federal funds sold and resell agreements	133,167	285	0.87%	121,233	282	0.94%	45,398	153	1.36%
Investment securities	127,926	744	2.36%	124,010	720	2.31%	69,469	456	2.64%
Total loans	846,437	10,024	4.80%	813,863	10,052	4.91%	559,575	7,425	5.34%
Total earning assets	1,115,863	11,054	4.02%	1,067,923	11,055	4.12%	703,914	8,118	4.64%
Allowance for loan losses	(7,029)			(5,770)			(4,024)		
Bank-owned life insurance	18,999			18,880			13,563		
Premises, furniture and equipment, net	16,531			16,300			14,545		
Deferred tax asset	9,993			9,729			10,643		
Goodwill & intangible assets	6,293			6,285			6,391		
Other real estate owned	810			1,097			1,482		
Other assets	8,484			6,233			4,267		
Total assets	<u>\$ 1,169,944</u>			<u>\$ 1,120,677</u>			<u>\$ 750,781</u>		
Interest bearing deposits	686,949	956	0.56%	639,995	1,054	0.66%	484,497	1,535	1.27%
Federal Reserve Bank PPPLF advances	78,096	67	0.35%	107,626	95	0.35%	-	-	0.00%
Federal Home Loan Bank advances	23,333	40	0.70%	20,000	38	0.76%	16,044	31	0.78%
Subordinated debt, net	14,545	232	6.47%	14,547	241	6.59%	-	-	0.00%
Total interest bearing liabilities	802,923	1,295	0.65%	782,168	1,428	0.73%	500,541	1,566	1.26%
Noninterest bearing deposits	254,650			232,377			152,337		
Other liabilities	8,143			5,327			4,456		
Stockholders' equity	104,228			100,805			93,447		
Total liabilities and stockholders' equity	<u>\$ 1,169,944</u>			<u>\$ 1,120,677</u>			<u>\$ 750,781</u>		

CoastalSouth Bancshares, Inc. and Subsidiary
Loans and Credit Quality Analysis
(dollars in thousands)

	1Q21	4Q20	3Q20	2Q20	1Q20	1Q21 change vs	
						4Q20	1Q20
Loans held for investment							
Commercial Loans							
Construction and land	\$ 61,075	\$ 62,079	\$ 46,857	\$ 51,137	\$ 48,250	\$ (1,004)	\$ 12,825
Commercial real estate	275,817	261,102	237,253	238,963	241,470	14,715	34,347
Commercial and industrial	106,616	104,955	101,307	90,683	90,801	1,661	15,815
Paycheck Protection Program	159,806	122,517	153,791	152,049	-	37,289	159,806
Consumer Loans							
Residential real estate	67,359	67,215	63,340	65,147	62,729	144	4,630
Other consumer	83,264	84,650	77,326	36,303	41,218	(1,386)	42,046
Total loans held for investment	\$ 753,937	\$ 702,518	\$ 679,874	\$ 634,282	\$ 484,468	\$ 51,419	\$ 269,469
Core LHFI	556,308	542,722	485,325	439,474	436,910	13,586	119,398
Acquired LHFI ⁽¹⁾	37,823	37,279	40,758	42,759	47,558	544	(9,735)
Paycheck Protection Program loans	159,806	122,517	153,791	152,049	-	37,289	159,806
Total loans held for investment	\$ 753,937	\$ 702,518	\$ 679,874	\$ 634,282	\$ 484,468	\$ 51,419	\$ 269,469
Total loans held for sale	\$ 116,334	\$ 113,481	\$ 127,463	\$ 109,749	\$ 119,018	\$ 2,853	\$ (2,684)
Total allowance for loan losses	\$ 7,060	\$ 7,041	\$ 5,703	\$ 4,959	\$ 4,444	\$ 19	\$ 2,616
Nonperforming assets							
Nonaccrual loans	\$ 2,710	\$ 3,494	\$ 3,706	\$ 4,429	\$ 4,689	\$ (784)	\$ (1,979)
Troubled debt restructurings	\$ 234	\$ 239	\$ 244	\$ 244	\$ 247	\$ (5)	\$ (13)
Other real estate owned	810	810	1,251	932	1,464	-	(654)
Total nonperforming assets	\$ 3,754	\$ 4,543	\$ 5,201	\$ 5,605	\$ 6,400	\$ (789)	\$ (2,646)
Credit Analysis							
Total net charge-offs (recoveries)	\$ (14)	\$ 131	\$ 84	\$ 110	\$ 23	\$ (145)	\$ (37)
Net charge-offs to total LHFI	-0.01%	0.07%	0.05%	0.07%	0.02%	-0.08%	-0.03%
Total allowance for loan losses to total LHFI	0.94%	1.00%	0.84%	0.78%	0.92%	-0.07%	0.02%
Total allowance for loan losses to total LHFI, excluding PPP loans	1.19%	1.21%	1.08%	1.03%	0.92%	-0.03%	0.27%
Nonperforming loans to gross LHFI	0.39%	0.53%	0.58%	0.74%	1.02%	-0.14%	-0.63%
Nonperforming assets to total assets	0.32%	0.40%	0.47%	0.58%	0.82%	-0.08%	-0.50%

⁽¹⁾ Includes loans acquired from the 2018 acquisition of First Citizens Financial Corporation.

CoastalSouth Bancshares, Inc. and Subsidiary
GAAP to Non-GAAP Reconciliation - Unaudited
(dollars in thousands)

	Quarterly Trends				
	1Q21	4Q20	3Q20	2Q20	1Q20
Net Income	\$ 3,074	\$ 1,709	\$ 2,097	\$ 1,608	\$ 954
Provision for allowance for loan losses	5	1,385	718	602	531
Provision for income taxes	966	409	673	457	314
Pre-tax pre-provision net revenue (PPNR)	\$ 4,045	\$ 3,503	\$ 3,488	\$ 2,667	\$ 1,799
Interest and fees on loans	\$ 10,024	\$ 10,052	\$ 8,776	\$ 8,098	\$ 7,426
Interest and fees on PPP loans	(1,617)	(1,791)	(1,060)	(741)	-
Loan interest income excluding PPP loans	\$ 8,407	\$ 8,261	\$ 7,716	\$ 7,357	\$ 7,426
Net interest income	\$ 9,759	\$ 9,627	\$ 8,306	\$ 7,267	\$ 6,552
Interest and fees on PPP loans	(1,617)	(1,791)	(1,060)	(741)	-
Net interest income excluding PPP loans	\$ 8,142	\$ 7,836	\$ 7,246	\$ 6,526	\$ 6,552
Total earning assets	\$ 1,115,863	\$ 1,067,923	\$ 959,299	\$ 870,735	\$ 703,914
Average PPP loans	(144,144)	(145,748)	(157,603)	(121,545)	-
Adjusted earning assets	\$ 971,719	\$ 922,175	\$ 801,696	\$ 749,190	\$ 703,914
Average loans (LHFI + LHFS)	\$ 846,437	\$ 813,863	\$ 776,102	\$ 695,427	\$ 559,575
Average PPP Loans	(144,144)	(145,748)	(157,603)	(121,545)	-
Average loans excluding PPP	\$ 702,293	\$ 668,115	\$ 618,499	\$ 573,882	\$ 559,575
Yield on loans	4.80%	4.91%	4.50%	4.68%	5.34%
Impact of PPP loans	-0.05%	-0.01%	-0.46%	-0.48%	0.00%
Yield on loans excluding PPP loans	4.85%	4.92%	4.96%	5.16%	5.34%
Net interest margin	3.55%	3.59%	3.44%	3.36%	3.74%
Impact of PPP loans	0.15%	0.21%	-0.16%	-0.14%	0.00%
Net interest margin excluding PPP loans	3.40%	3.38%	3.60%	3.50%	3.74%
Average assets	\$ 1,169,944	\$ 1,120,677	\$ 1,011,929	\$ 919,141	\$ 750,781
Average goodwill & intangible assets	(6,293)	(6,285)	(6,288)	(6,301)	(6,391)
Average commercial mortgage servicing rights	891	836	790	755	794
Average tangible assets	\$ 1,169,053	\$ 1,119,841	\$ 1,011,139	\$ 918,386	\$ 749,987
Average stockholders' equity	\$ 104,228	\$ 100,805	\$ 98,082	\$ 94,986	\$ 93,447
Average goodwill & intangible assets	(6,293)	(6,285)	(6,288)	(6,301)	(6,391)
Average commercial mortgage servicing rights	891	836	790	755	794
Average tangible equity	\$ 103,337	\$ 99,969	\$ 97,292	\$ 94,231	\$ 92,653