

# GrandSouth

## BANCORPORATION

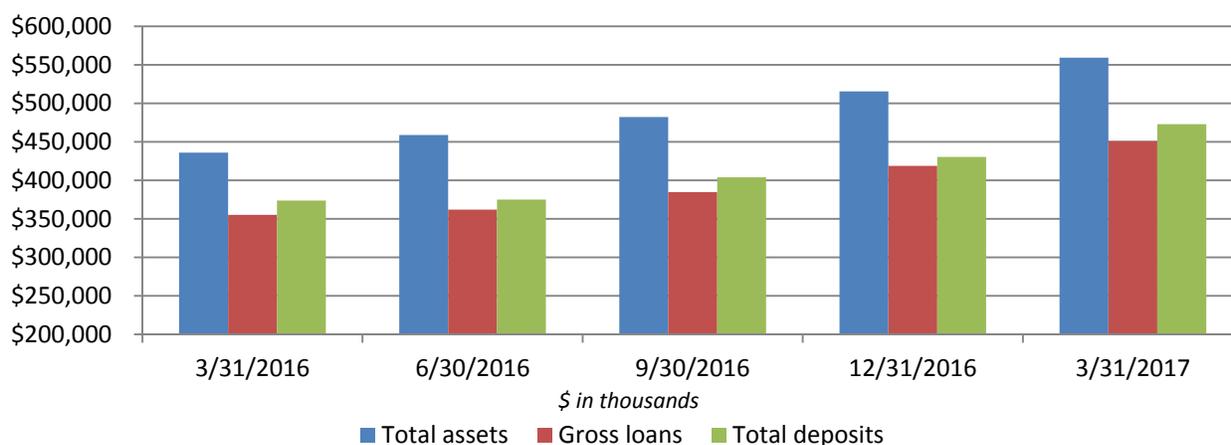
Dear Shareholders,

GrandSouth Bancorporation had another excellent quarter of growth in total assets ending March 31, 2017. Our investment into three new markets combined with organic growth in our legacy offices produced asset growth of approximately 28.4% year over year. Total assets grew from \$435.8 million as of March 31, 2016 to \$559.4 million as of March 31, 2017. For the quarter, total assets grew approximately \$44 million or 8.5% from December 31, 2016.

Loan demand is robust throughout our entire footprint. Many of our clients are telling us that they are having record setting performance in their companies. This enhanced economic activity necessitates new equipment purchases, expansion to plants and warehouses. Our expansion into Columbia and Orangeburg is also providing geographical diversification in our loan portfolio. The addition of Chris Bradham as our Senior Agriculture Lender opens up an entire new market of farm lending, stretching along the I-95 corridor from Dillon County to Dorchester County. This addition, combined with strong organic loan demand in the upstate, produced gross loan growth of \$96 million and a 27% increase year over year. For the first quarter, our gross loan growth was 7.7%.

We have continued to restructure the deposit side of our balance sheet by executing our plan to decrease our reliance on wholesale funding, while growing our core deposit base. Our treasury management calling officer is our point person focused on corporate checking growth. Through a strategic joint calling program with our commercial lenders we have been able to grow our non-interest bearing checking 27.4% in the first quarter of 2017 and 81.5% year over year. Our money market accounts have grown to \$189 million dollars at the end of the first quarter which provides a 29% deposit increase year over year. We had excellent growth in Columbia and Orangeburg. In less than 8 months these new markets generated approximately \$56.9 million in new deposit growth.

### Company Growth for 2016 and 2017



Brokered deposits declined by 44% year over year. Total deposits for our bank increased by \$42.8 million in the first quarter and by \$101.8 million year over year. This is a 9.9% growth in the first quarter and 27.4% growth from March 31, 2016.

Our specialty floor plan lending division experienced a spike in losses for the first quarter. This level of chargeoffs is outside the level we have historically experienced over the past years. The used car industry began to see a decline in values during the fourth quarter of 2016. This combined with a delay in the delivery of tax refunds due to the passage of the Path Act of 2015 created problems for our dealers. CarBucks recorded chargeoffs of \$1.6 million for the first quarter which equates to an annualized 7.56%. This accounted for 92% of total company chargeoffs of \$1.8 million. Our management team in this division believes this rate will come down during the remainder of the year, but will remain higher than our historical averages. We made additional provisions to our allowance for loan loss to accommodate for this change in loss history and as you will note, our allowance for loan losses as a percentage increased to 1.35% at March 31, 2017 from 1.23% at December 31, 2016. We are watching the industry trends that affect our automobile floor plan division very closely and are prepared to make changes in our underwriting requirements and credit line terms if necessary.

While we are disappointed in the first quarter results for our automobile floor plan lending vision, we are optimistic that it will continue to play an important earnings role in the future. We have been in this business for over ten years and it has been a significant contributor to the success of our company.

As you will note in our financial information presented below, the efficiency of the company has improved to 65.10% for the first quarter of 2017 from 74.30% from the fourth quarter of 2016. The investments we made in the last two years for the future success of our company are beginning to yield results. We expect these results will continue to improve as we grow into our new markets and continue to expand our franchise.

As you will also note in the following financial information, our earnings for the three months ending March 31, 2017 are down substantially from the same period last year. The majority of this negative comparison is the result of our experience in the floor plan lending division. We expect that these results will improve as we review the portfolio and adjust our risk tolerance to the change in market conditions. We appreciate the support from our shareholders and customers and look forward to continued success in 2017.

Sincerely,

JB Schwiers  
President & CEO

## **GrandSouth Bancorporation reports earnings for the first quarter of 2017 of \$95 thousand and declares a dividend of \$0.10 per common share.**

GREENVILLE, SC, May 6, 2017

GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank

GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank, announced today that net income for the quarter ended March 31, 2017 was \$95 thousand compared to \$1.5 million during the quarter ended March 31, 2016.

The Board of Directors declared a dividend of \$0.10 per common share (\$0.105 per Series A preferred share) payable on May 26, 2017 to shareholders of record on May 15, 2017. This is our sixteenth consecutive quarterly dividend.

### **Overview**

- Net loans increased by \$31.3 million, or 7.6%, during the quarter.
- GrandSouth Bancorporation's efficiency ratio was 65.10% during the first quarter of 2017 compared to 57.50% during the first quarter of 2016.
- GrandSouth Bancorporation's return on average assets was 0.07% during the first quarter of 2017 compared to 1.37% in the same quarter last year.
- The return on average equity was 0.74% in the first quarter of 2017, down from 12.84% in the first quarter of 2016.

### **Net Interest Income**

During the first quarter of 2017, net interest income before the provision for loan losses was \$8.1 million, up from \$6.8 million during the first quarter of 2016. Average loans during the first quarter of 2017 were \$437.8 million compared to \$363.2 million during the same period last year. The net interest margin was 6.82% in the first quarter of 2017, up from 6.75% in the first quarter of 2016 and up from 6.41% in the prior quarter.

### **Noninterest income**

Noninterest income was \$253 thousand during the first quarter of 2017, compared to \$158 thousand during the same quarter of 2016.

### **Noninterest Expense**

Noninterest expense was \$5.4 million for the first quarter of 2017 compared to \$4.0 million for the first quarter of 2016. Growth in non-interest expense during the quarter was impacted by the Company's in-process expansion of two new offices in the Columbia and Orangeburg, S.C. markets. Employee compensation increased by \$699 thousand compared to the first quarter of 2016.

The efficiency ratio increased to 65.10% during the quarter ended March 31, 2017 from 57.50% during the first quarter of 2016.

#### Loan Portfolio

Net loan growth in the first quarter of 2017 was \$31.3 million.

The composition of our loan portfolio consisted of the following at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
(Dollars in thousands)		
Loans secured by real estate:		
Commercial, financial and agricultural	\$ 138,442	\$ 130,577
Real estate - construction, land development and other land loans	35,830	38,371
Real estate - mortgage	232,515	214,679
Installment loans to individuals	44,205	35,164
Loans, gross	<u>450,992</u>	<u>418,791</u>
Allowance for possible loan losses	(6,093)	(5,158)
Loans, net	<u>\$ 444,899</u>	<u>\$ 413,633</u>

#### Loan Loss Provision/Asset Quality

The loan loss provision for the quarter ended March 31, 2017 was \$2.7 million, compared to \$630 thousand for the same period last year. Net charge offs for the three months ended March 31, 2017 were \$1.8 million, compared to \$626 thousand for the same period in 2016.

OREO as of March 31, 2017 was \$5.5 million compared to \$4.9 million as of the end of the previous year. Nonaccrual loans were \$3.1 million at March 31, 2017 compared to \$2.9 million at the end of last year.

GrandSouth Bancorporation's allowance for loan losses as a percentage of total loans at March 31, 2017 was 1.35%, compared to 1.23% at the end of 2016. Management believes the allowance is adequate at this time but continues to monitor trends in environmental factors which may potentially affect future losses.

#### Securities Portfolio

Investment securities, all of which are available-for-sale, were \$23.3 million at March 31, 2017 down from \$25.5 million at December 31, 2016.

Securities in our investment portfolio as of March 31, 2017 were as follows:

- callable agency securities in the amount of \$6.9 million
- residential government-sponsored mortgage-backed securities in the amount of \$11.6 million
- taxable municipal bonds in the amount of \$1.0 million
- nontaxable municipal bonds in the amount of \$3.8 million

During the first quarter of 2017, four municipal securities in the amount of \$1.8 million were called.

#### Deposits

Total deposits were \$473.0 million at March 31, 2017 compared to \$430.3 million at December 31, 2016. Interest-bearing accounts were \$384.1 million at March 31, 2017 up from \$360.4 million at December 31, 2016.

#### Shareholders' Equity

Total shareholders' equity decreased from \$50.7 million at December 31, 2016 to \$50.5 million at March 31, 2017, the decrease of which resulted from the retention of earnings, payment of dividends, exercise of stock options, expense of stock option grants, and changes in the fair market value of investments. Our Tier 1 Risk Based Capital Ratios were 13.06% and 12.88% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of March 31, 2017.

GrandSouth Bancorporation is a bank holding company with assets of \$559.4 million at March 31, 2017. GrandSouth Bank provides a range of financial services to individuals and small and medium sized businesses. GrandSouth Bank has six branches in South Carolina, located in Greenville, Fountain Inn, Anderson, Greer, Columbia and Orangeburg, S.C.

#### Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that relate to future events or the future performance of GrandSouth Bancorporation. Forward-looking statements are not guarantees of performance or results. These forward-looking statements are based on the current beliefs and expectations of the respective management of GrandSouth Bancorporation and GrandSouth Bank and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond their respective control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed or implied in these forward-looking statements because of numerous possible uncertainties. Words like "may," "plan," "contemplate," "anticipate," "believe," "intend," "continue," "expect," "project," "predict," "estimate," "could," "should," "would," "will," and similar expressions, should be considered as identifying forward-looking statements, although other phrasing may be used. Such forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors. Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the reports (such as Annual Reports) filed by GrandSouth Bancorporation. You should consider such factors and not place undue reliance on such forward-looking statements. No obligation is undertaken by GrandSouth Bancorporation to update such forward-looking statements to reflect events or circumstances occurring after the issuance of this press release.

GrandSouth Bancorporation  
Greenville, SC

Condensed Consolidated Balance Sheets  
(Unaudited)

	March 31, 2017	December 31, 2016
(Dollars in thousands)		
<b>Assets</b>		
Cash and due from banks	\$ 30,831	\$34,923
Interest bearing transaction accounts with other banks	1,700	3,086
Federal funds sold	23,825	5,309
Cash and cash equivalents	56,356	43,318
Certificates of deposit with other banks	2,500	2,500
Securities available-for-sale	23,296	25,543
Other investments, at cost	1,398	1,319
Loans, gross	450,992	418,791
Allowance for loan losses	(6,093)	(5,158)
Loans, net of allowance for loan losses	444,899	413,633
Premises and equipment, net	11,247	10,211
Bank owned life insurance	6,429	6,390
Assets acquired in settlement of loans	5,491	4,902
Interest receivable	3,898	3,755
Deferred income taxes	1,521	1,530
Goodwill	737	737
Other assets	1,634	1,676
<b>Total assets</b>	<b>\$ 559,406</b>	<b>\$515,514</b>
<b>Liabilities and shareholders' equity</b>		
<b>Deposits</b>		
Noninterest bearing	\$ 88,961	\$69,878
Interest bearing	384,086	360,449
<b>Total deposits</b>	473,047	430,327
Federal Home Loan Bank advances	22,000	22,000
Junior subordinated debentures	8,247	8,247
Interest payable	153	111
Other liabilities	5,431	4,140
<b>Total liabilities</b>	508,878	464,825
Shareholders' equity	50,528	50,689
<b>Total liabilities and shareholders' equity</b>	<b>\$ 559,406</b>	<b>\$515,514</b>

Condensed Consolidated Statements of Income  
(Unaudited)

	For the three months ended March 31,	
	2017	2016
	(Dollars in thousands)	
Interest income	\$ 8,947	\$7,435
Interest expense	881	594
Net interest income	8,066	6,841
Provision for loan losses	2,720	630
Net interest income after provision for loan losses	5,346	6,211
Noninterest income		
Service charges on deposit accounts	127	92
Gain on sale of securities	7	-
Net gain on sale of premises and equipment	-	-
Increase in value of life insurance assets	38	40
Other	81	26
Total noninterest income	253	158
Noninterest expense		
Salaries and employee benefits	3,457	2,758
Premises and equipment	435	277
Loss on sale and impairment of assets acquired in settlement of loans	4	(1)
Data processing	287	202
Other expenses	1,232	788
Total noninterest expenses	5,415	4,024
Income before income taxes	184	2,345
Income tax provision	89	835
Net income	95	1,510
Deductions for amounts not available to common Shareholders:		
Dividends declared or accumulated on preferred stock	(30)	(30)
Net income available to common shareholders	65	1,480

Financial Highlights  
(Unaudited)

	For the three months ended March 31,	
	2017	2016
Per share data:		
Earnings per share, basic	\$ 0.01	\$ 0.36
Earnings per share, diluted	\$ 0.01	\$ 0.35
Book value per share	\$ 10.94	\$ 11.05
Tangible book value per share	\$ 10.78	\$ 10.89
Weighted average shares outstanding, basic	4,490,290	4,134,953
Weighted average shares outstanding, diluted	4,575,840	4,244,300
Shares outstanding at end of period	4,497,990	4,540,665
Selected performance ratios and other data:		
Return on average assets	0.07%	1.37%
Return on average equity	0.74%	12.84%
Yield on average earning assets	6.61%	6.63%
Cost of funds	0.86%	0.66%
Net interest margin	6.82%	6.75%
Efficiency ratio	65.10%	57.50%
Charge-offs, net to average loans	1.66%	0.69%
	As of	
	March 31,	December 31,
	2017	2016
	(Dollars in thousands)	
Shareholders' equity to total assets	9.03%	9.83%
Tier 1 risk-based capital ratio	13.06%	13.90%
Intangible assets		
Goodwill	\$ 737	\$ 737
Other real estate owned	\$ 5,491	\$ 4,902
Loans past due 90 days and accruing interest (a)	84	82
Total nonperforming assets	8,631	7,919
Allowance for loan losses to loans, gross	1.35%	1.23%

(a) - Amount represents the net of the loans wholly or partially guaranteed by the US Government.