GrandSouth Bancorporation reports second quarter 2018 earnings of $1.66 million; tops $600 million in gross loans; 35% year over year growth in noninterest bearing deposits

GREENVILLE, SC, July 19, 2018
GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank

GrandSouth Bancorporation continued to grow in the second quarter with growth in total assets of $25.3 million, or 3.60%, for the quarter and $74.7 million, or 11.43%, for the year to date bringing total assets to $728.4 million as of June 30, 2018. The asset growth was primarily driven by an increase in gross loans of $24.5 million, for 4.21% for the quarter and $54.2 million, or 9.83%, for the year to date with our Charleston market leading the way, representing 50.66% of the growth. Loan growth was funded by growth in our deposit portfolio of $22.7 million, or 3.60%, for the quarter and $82.8 million, or 14.53%, for the year to date. Noninterest bearing deposits have grown by $9.8 million, or 10.38%, during the quarter and $14.5 million, or 16.18% for the year. The Orangeburg market was the biggest contributor to the overall deposit growth during the second quarter.

Asset quality continues to be one of the main focuses of the Company. Nonperforming assets have fallen $1.5 million, or 23.08%, during the second quarter and $1.7 million during the year to date. As a percentage of total assets, nonperforming assets have fallen to 0.70% at June 30, 2018, down from 0.94% as of March 31, 2018, 1.03% as of December 31, 2017 and 1.42% at June 30, 2017. Total past due accruing loans, net of the amounts guaranteed by the U.S. government, increased to 0.16% as of June 30, 2018 from 0.13% as of March 31, 2018, 0.06% as of December 31, 2017 and 0.10% at June 30, 2017.

Our specialty floor plan lending division credit loss rate improved to an annualized rate of 1.20% in the second quarter, and 1.46% for the year to date. This quarterly rate is down from 1.69% from the prior quarter, 2.27% in the fourth quarter of 2017 and 3.41% in the third quarter of 2017. This division's contribution to the Company's earnings remains strong and we are enthusiastic about its future.

The Company's net income for the quarter ended June 30, 2018 was $1.7 million or $0.34 per diluted share compared to net income of $468 thousand or $0.09 per diluted share for the quarter ended June 30, 2017. For the six months ending on June 30, 2018, the Company's net income is $3.1 million, or $0.63 per diluted share, compared to net income of $563 thousand, or $0.10 per diluted share, during the same period in 2017.

Our local economy continues to produce great opportunities for new bank customers. We are confident that the quality growth we are experiencing will benefit earnings in future periods. We appreciate the support from our shareholders and customers and look forward to continued success in 2018.

Sincerely,

JB Schwiers
President & CEO

GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank, announced today that net income for the quarter ended June 30, 2018 was $1.7 million compared to net income of $468 thousand during the quarter ended June 30, 2017.

Overview

- Net income for the quarter was $1.7 million and $3.1 million for the year to date.
- Total gross loans passed the $600 million mark.
- Net loans increased by $23.9 million, or 4.16%, during the quarter and $53.1 million or 9.77% for the first six months of the year.
- Gross loans excluding specialty floor plan and purchased student loans ("core bank loans") grew $26.9 million, or 5.81% during the quarter and $60.9 million, or 14.20%, during the year to date.
- Net charge off ratios for the Company as a whole for were -0.30% and -0.02% for the quarter and six months ended June 30, 2018, respectively.
- Core bank loan net charge off ratios were -0.57% and -0.29% for the three and six months ended June 30, 2018, respectively.
- GrandSouth Bancorporation's efficiency ratio was 73.11% for the second quarter of 2018 compared to 70.27% during the first quarter of 2018, 76.57% during the second quarter of 2017.

Net Interest Income

Net interest income before provision for loan losses increased from $7.7 million during the second quarter of 2017 to $8.7 million for the same period in 2018. For the six months ended June 30, 2018, net interest income was $17.4 million as compared to $15.8 million for the same period in 2017.

Gross loans averaged $591.5 million and $581.3 million for the three and six months ended June 30, 2018, respectively. For the same periods in 2017, gross loans averaged $464.2 million and $451.1 million, respectively.

Respectively, the net interest margin of the Company for the three and six months ended June 30, 2018 were 5.24% and 5.46%, compared to 5.89% and 6.35% for the same periods in 2017.

Noninterest Income

Noninterest income was $243 thousand and $284 thousand for the quarters ended June 30, 2018 and 2017, respectively, and $594 thousand and $535 thousand for the six months ended June 30, 2018 and 2017, respectively.

Noninterest Expense

For the quarters ended June 30, 2018 and 2017, respectively, noninterest expense was $6.5 million and $6.1 million. The growth in noninterest expense for the quarter as compared to the same period a year ago was primarily driven by a $122 thousand increase in employee compensation and a $118 loss on sale of real estate acquired in the settlement of loans.

For the six months ended on the same dates, noninterest expense was $12.9 million and $11.5 million, with $863 thousand and $120 thousand of the increase attributable to salaries expense and loss on sale of real estate acquired in the settlement of loans, respectively.

The efficiency ratio decreased to 73.11% during the quarter ended June 30, 2018 from 76.57% during the second quarter of 2017.

Loan Portfolio

Gross loan growth was $24.5 million and $54.2 million in three and six months ended June 30, 2018, respectively. Core bank loans grew by $26.9 million, or 5.81%, and $53.1 million, or 9.77%, during the same periods. Specialty floor plan loans declined $0.7 million, or 0.98%, and $3.5 million, or 4.48%, during same periods. Purchased student loans continued to experience paydowns, totaling $1.7 million, or 4.01%, during the quarter and $3.2 million, or 7.39%, for the year to date.

The composition of our loan portfolio consisted of the following at June 30, 2018, December 31, 2017 and June 30, 2017:

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in thousands)		
Loans secured by real estate:			
Commercial, financial and agricultural	$ 170,325	$ 157,074	$ 144,673
Real estate - construction, land development and other	63,151	54,580	37,208
Real estate – mortgage	323,101	289,029	237,956
Installment loans to individuals	49,004	50,711	53,428
Loans, gross	605,581	551,394	473,265
Allowance for possible loan losses	(8,468)	(7,414)	(6,396)
Loans, net	$ 597,113	$ 543,980	$ 466,869

Loan Loss Provision/Asset Quality

For the quarter and six months ended June 30, 2018, the loan loss provision was $186 thousand and $991 thousand, respectively. For the same period in 2017, the loan loss provision was $1.1 million and $3.8 million. The Company had net recoveries for the three and six months ended June 30, 2018 of $446 thousand and $63 thousand as compared to net charge offs of $782 thousand and $2.6 million for the same periods last year.

Real estate acquired in the settlement of loans were $3.1 million at June 30, 2018, 4.9 million as of December 31, 2017 and $5.6 million as of June 30, 2017. Nonaccrual loans were $1.9 million at June 30, 2018, $1.7 million at December 31, 2017 and $2.9 million at June 30, 2017.

The Company's allowance for loan losses as a percentage of total loans at June 30, 2018 was 1.40%, compared to 1.34% and 1.35% at December 31 and June 30, 2017, respectively. The Company's management believes the allowance is adequate now 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 $25.8 million at June 30, 2018 up from $21.4 million and $24.0 million at December 31 and June 30, 2017, respectively.

Securities in our investment portfolio as of June 30, 2018 were as follows:

- callable agency securities in the amount of $5.8 million
- residential government-sponsored mortgage-backed securities in the amount of $16.1 million

- taxable municipal bonds in the amount of $1.0 million
- nontaxable municipal bonds in the amount of $2.9 million

During the quarter, the Company purchased one nontaxable municipal bond for $1.2 million and two residential government-sponsored mortgage-backed securities for $4.7 million. No securities were called during the second quarter of 2018.

Deposits

Total deposits increased by $22.7, or 3.60%, and $82.8 million, or 14.53%, during the three and six months ended June 30, 2018, when the balance stood at $652.8 million. Interest bearing deposits were $548.6 million at quarter end, reflecting a $12.9 million, or 2.40%, and $68.3 million, or 14.23%, increase for the three and six months then ended. Noninterest bearing deposits increased $9.8 million, or 10.38%, and $14.5 million, or 16.18%, for the quarter and year to date ended June 30, 2018.

Shareholders' Equity

Shareholders' equity was $53.8 million at June 30, 2018, a $1.8 million, or 3.45%, and $3.1 million, or 6.17%, increase for the three and six months then ended. The balance change is a result of the retention of earnings, exercise of stock options, expense of stock option grants and changes in the fair value of investments. Tier 1 Risk Based Capital Ratios were 10.23% and 10.16% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of June 30, 2018.

GrandSouth Bancorporation is a bank holding company with assets of $728.4 million at June 30, 2018. 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.

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)

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 37,997	$ 22,799	$ 44,708
Interest bearing transaction accounts with other banks	7,071	14,290	1,368
Federal funds sold	13,079	4,368	29,434
Cash and cash equivalents	58,147	41,457	75,510
Certificates of deposit with other banks	16,500	13,500	4,000
Securities available-for-sale	25,824	21,440	23,976
Other investments, at cost	907	121	1,399
Loans, gross	605,581	551,394	473,265
Allowance for loan losses	(8,468)	(7,414)	(6,396)
Loans, net of allowance for loan losses	597,113	543,980	466,869
Premises and equipment, net	12,053	12,215	12,073
Bank owned life insurance	6,616	6,543	6,467
Real estate acquired in settlement of loans	3,069	4,923	5,569
Interest receivable	4,371	4,728	4,117
Deferred income taxes	1,767	1,664	1,497
Goodwill	737	737	737
Other assets	1,332	1,275	1,714
Total assets	$ 728,436	$ 653,733	$ 603,928
Liabilities and shareholders' equity			
Deposits			
Noninterest bearing	$ 104,204	$ 89,688	$ 77,011
Interest bearing	548,642	480,310	441,878
Total deposits	652,846	569,998	518,889
Federal Home Loan Bank advances	7,000	19,000	22,000
Other borrowings	625	550	0
Junior subordinated debentures	8,247	8,247	8,247
Interest payable	267	208	171
Other liabilities	5,965	5,097	3,938
Total liabilities	674,680	603,100	553,245
Shareholders' equity	53,756	50,633	50,683
Total liabilities and shareholders' equity	$ 728,436	$ 653,733	$ 603,928

Condensed Consolidated Statements of Income
(Unaudited)

	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
	(Dollars in thousands)			
Interest income	$ 10,755	$ 8,837	$ 21,172	$ 17,784
Interest expense	2,072	1,141	3,786	2,022
Net interest income	8,683	7,696	17,386	15,762
Provision for loan losses	186	1,086	991	3,806
Net interest income after provision for loan losses	8,497	6,610	16,395	11,956
Noninterest income				
Service charges on deposit accounts	160	137	310	264
Gain on sale of securities	0	4	0	10
Net gain on sale of premises and equipment	5	(2)	129	(2)
Increase in value of life insurance assets	37	39	73	77
Other	41	106	82	186
Total noninterest income	243	284	594	535
Noninterest expense				
Salaries and employee benefits	4,042	3,920	8,238	7,375
Premises and equipment	491	431	955	866
Loss on sale and impairment of real estate acquired in settlement of loans	118	0	124	4
Data processing	319	306	653	593
Other expenses	1,556	1,454	2,918	2,686
Total noninterest expense	6,526	6,111	12,888	11,524
Income before income taxes	2,214	783	4,101	967
Income tax provision	552	315	1,031	404
Net income	1,662	468	3,070	563
Deductions for amounts not available to common shareholders:				
Dividends declared or accumulated on preferred stock	0	(30)	0	(60)
Net income available to common Shareholders	$ 1,662	$ 438	$ 3,070	$ 503

Financial Highlights
(Unaudited)

	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
	(Dollars in thousands)			
Per share data:				
Earnings per share, basic	$ 0.37	$ 0.10	$ 0.68	$ 0.11
Earnings per share, diluted	$ 0.34	$ 0.09	$ 0.63	$ 0.10
Book value per share	$ 11.61	$ 10.97	$ 11.61	$ 10.97
Tangible book value per share	$ 11.45	$ 10.81	$ 11.45	$ 10.81
Weighted average shares outstanding, basic	4,510,878	4,499,559	4,506,740	4,494,950
Weighted average shares outstanding, diluted	4,902,157	4,882,769	4,893,357	4,879,863
Shares outstanding at end of period	4,517,840	4,500,540	4,517,840	4,500,540
Selected performance ratios and other data:				
Return on average assets	0.93%	0.33%	1.04%	0.21%
Return on average equity	12.57%	3.69%	11.84%	2.22%
Yield on average earning assets	5.02%	5.71%	5.23%	6.13%
Cost of funds	1.48%	1.02%	1.40%	0.94%
Net interest margin	5.24%	5.89%	5.46%	6.35%
Efficiency ratio	73.11%	76.57%	71.68%	70.71%
Charge-offs, net to average loans	-0.30%	0.68%	-0.02%	1.15%

	June 30, 2018	December 31, 2017	June 30, 2017
	(Dollars in thousands)		
Shareholders’ equity to total assets	7.38%	7.75%	8.39%
Tier 1 risk-based capital ratio	10.23%	10.47%	12.43%
Intangible assets			
Goodwill	$ 737	$ 737	$ 737
Other real estate owned	3,069	4,923	5,569
Nonaccrual loans	1,944	1,745	2,860
Loans past due 90 days and accruing interest (a)	56	61	117
Total nonperforming assets	5,069	6,729	8,546
Allowance for loan losses to loans, gross	1.40%	1.34%	1.35%

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