

GrandSouth

BANCORPORATION

GrandSouth Bancorporation reports first quarter 2020 earnings of \$1.9 million and declares a dividend of \$0.08 per common share.

GREENVILLE, SC, April 29, 2020

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

GrandSouth Bancorporation today reported earnings of \$1.9 million for the quarter ending March 31, 2020, compared to earnings of \$2.1 million for the same period in 2019. The 8.74% decrease in net income was primarily attributable to a \$0.4 million, or 54.71%, increase in the provision for loan losses and a \$1.0 million, or 15.97%, increase in noninterest expenses. These increases were partially offset by a \$0.9 million, or 9.27%, increase in net interest income, and a \$0.3 million, or 86.23%, increase in noninterest income. Income before the provision for loan losses and taxes was \$3.6 million for the quarter, the best results in the history of the Company. The Board of Directors declared a dividend of \$0.08 per common share payable on May 20, 2020 to shareholders of record on May 4, 2020. While the credit metrics continued to look strong at the end of the quarter, management decided to strengthen the allowance for loan losses to recognize the risks from an overall weakening of the economy due to the COVID-19 pandemic, raising it to 1.42% of gross loans at March 31, 2020 from 1.36% at December 31, 2019. Annualized return on average assets was 0.85% for the quarter.

The Company finished the first quarter of 2020 with total assets of \$925.1 million. This is a \$13.4 million, or 1.47%, increase in total assets since December 31, 2019. The main funding source for asset growth was Federal Home Loan Bank advances, which increased \$20 million for the quarter. As a result of seasonal fluctuations and repricing opportunities, noninterest and interest-bearing deposits decreased \$2.8 million, or 2.05%, and \$7.8 million, or 1.16%, respectively, for the quarter. Total gross loans ended the first quarter at \$771.4 million, reflecting an increase of \$15.0 million, or 1.99%, for the quarter. Gross loans, excluding specialty floor plan and purchased student loans ("Core Bank loans") ended the quarter at \$658.6 million reflecting an increase of \$21.0 million, or 3.29%, during the quarter.

While the current interest rate environment is a challenge for the banking industry, it also creates an opportunity for us to lower our overall cost of funds. The cost of funds for the first quarter of 2020 was 17 basis points lower compared to the first quarter of 2019. We believe we can continue to see improvement as \$296 million of our CD portfolio, with an average interest rate of 2.13%, matures in 2020.

Nonperforming assets ended the quarter at \$3.2 million, or 0.35% of total assets, down from 0.42% as of December 31, 2019. Past due, but still accruing loans, net of the amounts guaranteed by the U.S. Government remained stable as a percentage of total assets for the quarter ended March 31, 2020, compared to December 31, 2019.

The specialty floor plan lending division continued to experience solid performance during the first quarter, finishing the period with \$82.2 million in loans outstanding. The division's net charge off ratio for the first quarter of 2020 was 1.74%, down from 2.06% in the prior quarter and 1.82% in the same quarter a year ago. This division continues to make a significant contribution to our earnings.

We continue to focus on the effects of the COVID-19 pandemic as it relates to our Company, employees, customers and other stakeholders. As of April 28, 2020, we have processed 208 loans through the SBA Paycheck Protection Program (PPP) totaling \$33.7 million. We have also assisted affected customers by granting loan payment deferrals on 217 loans totaling \$70.3 million, or 9.0% of total gross loans. These results demonstrate the exceptional teamwork and effort of every employee of the Company. We are proud to be a resource for our community during these challenging times.

Sincerely,



JB Schwiens
President & CEO
GrandSouth Bank

GrandSouth Bancorporation (GRRB:OTCQX), the holding company for GrandSouth Bank, announced today that net income for the first quarter of 2020 was \$1.9 million.

The Board of Directors declared a dividend of \$0.08 per common share (\$0.084 per Series A preferred share) payable on May 20, 2020 to shareholders of record on May 4, 2020.

First Quarter 2020 Overview

- Net income was \$1.9 million for the quarter.
- Gross loans increased \$15.0 million, or 1.99%, during the quarter.
- Gross loans, excluding specialty floor plan and purchased student loans (“Core Bank loans”), grew \$21.0 million, or 3.29%, during the quarter.
- The Company’s net charge off ratio for the quarter was 0.22%, down from the prior quarter’s 0.23%. The Core Bank’s net charge off ratio was 0.01%, compared to net recoveries ratio of 0.02% in the prior quarter.
- The Company’s quarterly efficiency ratio was 67.84%, compared to 65.45% for the same quarter a year ago.

COVID-19 Loan Overview through April 28, 2020

- 208 Paycheck Protection Program (PPP) loans processed totaling \$33.7 million.
- 217 loans granted payment deferrals totaling \$70.3 million, or 9.0% of total gross loans.

Net Interest Income

Net interest income before provision for loan losses was \$10.6 million for the quarter ended March 31, 2020, up \$0.9 million, or 9.27%, from the same period in 2019.

Net interest margin compressed primarily as a result of the Federal Reserve rate cuts of 225 bp since the quarter ended March 31, 2019. Although average interest-bearing assets increased \$111.8 million, or 12.7%, for the quarter ended March 31, 2020 compared to the same period in 2019, the relative yields on interest-earning assets declined 45 bp over the same periods. The yield on interest-bearing liabilities declined at a slower pace, or 19 bp, over the same periods, resulting in a net interest margin of 4.86 % for the first quarter of 2020, compared to 5.14% for the same period in 2019.

Noninterest Income

Noninterest income was \$0.7 million for the first quarter of 2020, an increase of \$0.3 million, or 86.23%, from the first quarter of 2019. This change was primarily driven by increases in bank-owned life insurance income, shipping fee income, and fees related to certain mortgage programs.

Noninterest Expense

Noninterest expense increased \$1.0 million, or 15.97%, in the first quarter of 2020 when compared to the same period of 2019. These increases are primarily attributable to increases in salaries and employee benefits from the addition of new staff.

Loan Portfolio

The Company has been actively working with customers through the COVID-19 pandemic through the participation in the SBA Paycheck Protection Program (PPP) and through the grant of deferments of principal and interest to those affected. As of April 28, 2020, the Company has processed 208 PPP loans

totaling \$33.7 million and granted loan payment deferrals due to the pandemic on 217 loans totaling \$70.3 million, or 9.0% of total gross loans.

The Company grew gross loans by \$15.0 million, or 1.99%, during the first quarter of 2020. While specialty floor plan loans declined by \$4.7 million, or 5.37% for the quarter ended March 31, 2020, Core Bank loans grew by \$21.0 million, or 3.29%, during the same period. Purchased student loans continued to experience paydowns totaling \$1.3 million, or 3.97%.

The composition of our loan portfolio consisted of the following on March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
	(Dollars in thousands)	
Commercial, financial and agricultural	\$ 136,021	\$ 140,109
Specialty floor plan loans	82,189	86,853
Real estate - construction, land development and other	61,901	63,729
Real estate – mortgage	452,337	424,590
Purchased student loans	30,621	31,887
Installment loans to individuals	8,362	9,221
Loans, gross	<u>771,431</u>	<u>756,389</u>
Allowance for loan losses	<u>(10,957)</u>	<u>(10,287)</u>
Loans, net	<u>\$ 760,474</u>	<u>\$ 746,102</u>

Loan Loss Provision and Asset Quality

For the quarter ended March 31, 2020, the provision for loan losses was \$1.1 million, an increase of \$0.4 million, or 54.71%, from the same quarter a year ago. Net charge offs remained stable at \$0.4 million for the quarter ended March 31, 2020 compared to the same period in 2019. Gross recoveries in the quarter ending March 31, 2020 were \$0.2 million compared to \$0.1 million for the same period in 2019.

The Allowance for loan losses as a percentage of total gross loans increased to 1.42% at March 31, 2020 from 1.36% at December 31, 2019 primarily as a result of uncertainty from the recent COVID-19 pandemic. The Company's management believes the allowance is adequate to absorb losses that are inherent in the loan portfolio as of March 31, 2020 and will continue to closely monitor credit ratios and activity.

Assets acquired in the settlement of loans were \$1.9 million at March 31, 2020, and December 31, 2019. Nonaccrual loans decreased to \$1.3 million at March 31, 2020 from \$1.9 million at December 31, 2019. Nonaccrual loans were \$1.1 million at March 31, 2019.

Securities Portfolio

Investment securities available-for-sale were \$71.1 million at March 31, 2020, down \$2.7 million, or 3.72% from \$73.9 million at December 31, 2019.

Securities in our investment portfolio as of March 31, 2020 were as follows:

- callable agency securities totaling \$2.0 million;
- residential government-sponsored mortgage-backed securities totaling \$31.6 million;

- collateralized mortgage obligations totaling \$30.5 million;
- taxable municipal bonds totaling \$4.1 million;
- nontaxable municipal bonds totaling \$2.4 million; and
- corporate debt securities in the amount of \$500 thousand.

During the first quarter of 2020, one security was called and no securities were purchased or sold.

Deposits

Total deposits declined \$10.6 million, or 1.31%, during the first quarter of 2020 to \$801.9 million at quarter end. Noninterest bearing deposits decreased \$2.8 million, or 2.05%, during the quarter to \$135.4 million at March 31, 2020.

Borrowings

As of March 31, 2020, the Company had \$20 million of Federal Home Loan Bank advances outstanding.

Shareholders' Equity

Shareholders' equity was \$79.4 million at March 31, 2020, an increase of \$2.8 million, or 3.62%, for the quarter. The balance was impacted by the normal retention of earnings, exercise of stock options, expense of stock option grants, changes in the fair value of investments and payment of dividends.

Tier 1 Risk Based Capital Ratios were 11.70% and 11.33% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of March 31, 2020.

GrandSouth Bancorporation is a bank holding company with assets of \$925.1 million at March 31, 2020. GrandSouth Bank provides a range of financial services to individuals and small and medium sized businesses. GrandSouth Bank has seven branches in South Carolina, located in Greenville, Fountain Inn, Anderson, Greer, Columbia, Orangeburg and Charleston.

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. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements: (1) competitive pressures among depository and other financial institutions may increase significantly and have an effect on pricing, spending, third-party relationships and revenues; (2) the strength of the United States economy in general and the strength of the local economies in which the

company conducts operations may be different than expected, including, but not limited to, due to the negative impacts and disruptions resulting from the recent outbreak of the novel coronavirus, or COVID-19, on the economies and communities the company serves, which may have an adverse impact on the company's business, operations and performance, and could have a negative impact on the company's credit portfolio, share price, borrowers, and on the economy as a whole, both domestically and globally; (3) the rate of delinquencies and amounts of charge-offs, the level of allowance for loan loss, the rates of loan growth, or adverse changes in asset quality in our loan portfolio, which may result in increased credit risk-related losses and expenses; (4) changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, the Coronavirus Aid, Relief, and Economic Security Act, or the "CARES Act"; (5) adverse conditions in the stock market, the public debt market and other capital markets (including changes in interest rate conditions) could have a negative impact on the company; (6) changes in interest rates, which may affect the company's net income, prepayment penalty income, and other future cash flows, or the market value of the company's assets, including its investment securities; and (7) changes in accounting principles, policies, practices, or guidelines. 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 and Subsidiary
Greenville, SC
Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2020	December 31, 2019
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 38,242	\$ 31,604
Interest bearing transaction accounts with other banks	2,506	4,900
Federal funds sold	2,835	6,275
Cash, cash equivalents and restricted cash	43,583	42,779
Securities available-for-sale	71,136	73,885
Other investments, at cost	10,169	9,196
Loans, gross	771,431	756,389
Allowance for loan losses	(10,957)	(10,287)
Loans, net of allowance for loan losses	760,474	746,102
Premises and equipment, net	13,859	14,136
Bank owned life insurance	14,548	14,447
Assets acquired in settlement of loans	1,855	1,855
Interest receivable	5,384	5,743
Deferred income taxes	1,845	2,161
Goodwill	737	737
Other assets	1,499	604
Total assets	\$ 925,089	\$ 911,645
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	\$ 135,442	\$ 138,276
Interest bearing	666,411	674,225
Total deposits	801,853	812,501
Federal Home Loan Bank advances	20,000	-
Junior subordinated debentures	18,098	18,088
Interest payable	663	506
Other liabilities	5,051	3,900
Total liabilities	845,665	834,995
Shareholders' equity		
Preferred stock - Series A - no par value	1,298	1,298
Common stock - no par value	44,588	44,327
Retained earnings	32,312	30,841
Accumulated other comprehensive gain	1,226	184
Total shareholders' equity	79,424	76,650
Total liabilities and shareholders' equity	\$ 925,089	\$ 911,645

NOTE: Certain amounts in the prior year's financial statements may have been reclassified to conform to the current year's presentation. The reclassifications had no effect on our results of operations or financial condition as previously reported.

GrandSouth Bancorporation and Subsidiary
 Greenville, SC
 Condensed Consolidated Statements of Income (Unaudited)

	For the three months ended March 31,	
	2020	2019
	(Dollars in thousands)	
Interest income	\$ 13,616	\$ 12,642
Interest expense	<u>3,022</u>	<u>2,947</u>
Net interest income	10,594	9,695
Provision for loan losses	<u>1,083</u>	<u>700</u>
Net interest income after provision for loan losses	9,511	8,995
Noninterest income		
Service charges on deposit accounts	235	206
Net gain on sale of premises and equipment	-	19
Increase in value of life insurance assets	101	35
Other	<u>286</u>	<u>74</u>
Total noninterest income	622	334
Noninterest expenses		
Salaries and employee benefits	5,055	4,231
Premises and equipment	554	522
Data processing	450	339
Other expenses	<u>1,553</u>	<u>1,472</u>
Total noninterest expenses	<u>7,612</u>	<u>6,564</u>
Income before income taxes	2,521	2,765
Income tax provision	<u>609</u>	<u>670</u>
Net income	1,912	2,095
Deductions for amounts not available to common shareholders:		
Dividends declared or accumulated on preferred stock	<u>(24)</u>	<u>-</u>
Net income available to common shareholders	<u>\$ 1,888</u>	<u>\$ 2,095</u>

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GrandSouth Bancorporation and Subsidiary
Greenville, SC
Net Interest Margin Analysis (Unaudited)

	For the three months ended					
	March 31, 2020			March 31, 2019		
	Average balance	Interest	Average Yield	Average balance	Interest	Average Yield
	(Dollars in thousands)					
Interest earning assets						
Investments						
Corporate debt security	500	7	5.24%	-	-	0.00%
FHLB stock and preferred stock	1,625	18	4.44%	1,681	24	5.64%
Certificates of deposit	7,751	43	2.24%	13,466	68	2.04%
US agency securities and treasuries	2,899	14	2.00%	14,765	80	2.16%
Mortgage backed securities & CMOs	62,661	320	2.04%	18,269	116	2.55%
Municipals, taxable	4,254	29	2.69%	992	4	1.67%
Municipals, non-taxable	2,469	21	3.43%	6,050	54	3.58%
Subtotal, investments	82,159	452	2.20%	55,223	346	2.51%
Cash equivalents						
Due from banks and fed funds sold	22,779	73	1.28%	39,544	187	1.92%
Subtotal, cash equivalents	22,779	73	1.28%	39,544	187	1.92%
Total investment securities and cash equivalents	104,938	525	2.00%	94,767	533	2.26%
Loans						
Consumer loans and line of credit loans	8,647	109	5.07%	9,213	116	5.10%
FFELP student loans	31,546	390	4.97%	35,776	478	5.41%
Commercial loans	110,759	1,372	4.98%	94,233	1,263	5.44%
Commercial real estate loans	472,235	5,372	4.58%	388,330	4,739	4.95%
Specialty floor plan loans	91,365	5,189	22.84%	86,960	4,851	22.62%
Residential loans and equity loans	57,762	664	4.62%	56,192	673	4.86%
Total loans	772,314	13,096	6.82%	670,704	12,120	7.33%
Total interest bearing assets	877,252	13,621	6.24%	765,471	12,653	6.70%
Interest bearing funds						
Interest-bearing deposits						
Premium accounts	19,631	5	0.11%	12,212	4	0.13%
Money market accounts	265,496	708	1.07%	228,940	843	1.49%
Regular savings accounts	6,798	2	0.10%	4,976	2	0.15%
Certificates of deposit, IRAs and CDARS	374,213	2,019	2.17%	338,295	1,751	2.10%
Total interest bearing deposits	666,138	2,734	1.65%	584,423	2,600	1.80%
Other interest bearing liabilities						
Federal funds purchased	960	5	2.23%	-	-	0.00%
Junior subordinated debentures	18,093	250	5.56%	18,052	268	6.04%
Federal Home Loan Bank advances	9,758	33	1.35%	12,678	79	2.51%
Total other interest bearing liabilities	28,811	288	4.02%	30,730	347	4.58%
Total interest bearing funds	694,949	3,022	1.75%	615,153	2,947	1.94%
Rate spread			<u>4.49%</u>			<u>4.76%</u>
Non-interest bearing funds						
Demand deposit accounts	131,078			114,400		
Total funds and cost of funds	826,027	3,022	1.47%	729,553	2,947	1.64%
Rate spread on funds			<u>4.77%</u>			<u>5.06%</u>
Net interest margin		<u>10,599</u>	<u>4.86%</u>		<u>9,706</u>	<u>5.14%</u>

NOTE: Certain amounts in the prior year's financial statements may have been reclassified to conform to the current year's presentation. The reclassifications had no effect on our results of operations or financial condition as previously reported.

GrandSouth Bancorporation and Subsidiary
Greenville, SC
Financial Highlights (Unaudited)

	For the three months ended March 31,	
	2020	2019
	(Dollars in thousands, except per share)	
Per share data:		
Earnings per common share, basic	0.36	0.45
Earnings per common share, diluted	0.34	0.42
Book value per common share	14.99	13.24
Tangible book value per common share	14.85	13.10
Tangible book value per common share adjusted for the conversion of Series A preferred stock per share	14.31	12.64
Weighted average common shares outstanding, basic	5,206,020	4,625,107
Weighted average common shares outstanding, diluted	5,579,425	4,983,167
Common shares outstanding at end of period	5,210,531	5,083,207
Selected performance ratios and other data:		
Annualized return on average assets	0.85%	1.07%
Annualized return on average equity	9.80%	14.13%
Annualized net interest margin	4.86%	5.14%
Efficiency ratio	67.84%	65.45%
Annualized charge-offs, net to average loans	0.22%	0.26%
	As of	
	March 31,	December 31,
	2020	2019
	(Dollars in thousands)	
Shareholders' equity to total assets	8.59%	8.41%
Tier 1 risk-based capital ratio	11.70%	11.61%
Intangible assets		
Goodwill	737	737
Other real estate owned	1,855	1,855
Nonaccrual loans	1,292	1,897
Loans past due 90 days and accruing interest (a)	61	64
Total nonperforming assets	3,208	3,816
Allowance for loan losses to loans, gross	1.42%	1.36%

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

NOTE: Certain amounts in the prior year's financial statements may have been reclassified to conform to the current year's presentation. The reclassifications had no effect on our results of operations or financial condition as previously reported.