

GrandSouth Bancorporation announces fourth quarter 2017 earnings; 27% Organic Asset Growth in 2017

GREENVILLE, SC, February 16, 2018

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

GrandSouth Bancorporation had an excellent fourth quarter with \$28.8 million or 4.61% growth in total assets from September 30, 2017. Total assets grew \$138.2 million or 26.81% year over year from \$515.5 million as of December 31, 2016 to \$653.7 million as of December 31, 2017. The asset growth for our company has been driven by a 31.66% increase in gross loans from December 31, 2016 to December 31, 2017 with our new markets of Orangeburg, Columbia and Charleston representing 63.98% or \$84.8 million of the growth. The loan growth was funded by an increase of our deposit base of 32.46% to \$567.0 million from the previous year end. Total noninterest bearing deposits have grown 28.35% year to date. The Columbia and Orangeburg markets have been big contributors to overall deposit growth.

We continued to be very focused on the asset quality of the bank and this focus has shown results. The asset quality of the company continued to improve throughout 2017. Nonperforming assets as a percentage of total assets decreased to 1.03% as of December 31, 2017 from 1.54% as of December 31, 2016. Total past due accruing loans, net of the amounts guaranteed by the U.S. government, also decrease to 0.05% as of December 31, 2017 from 0.58% as of December 31, 2016.

Our specialty floor plan division credit loss for the fourth quarter of 2017 improved to an annualized rate of 2.29%. The loss ratio trends for this division have improved from an annualized loss of 7.44% from first quarter, 3.77% for the second quarter, and 3.44% for the third quarter. While the full year credit loss in this division was above our past experience, it continues to be a positive contributor to the earnings of the company. We are excited about the future of the division.

The Company recorded a net loss for the quarter ended December 31, 2017 of \$228 thousand, or \$0.05 per diluted share compared to net income of \$385 thousand, or \$0.08 per diluted for share during the quarter ended December 31, 2016. For the year ended December 31, 2017, net income was \$790.0 thousand, or \$0.15 per diluted share compared to net income of \$3.1 million, or \$0.68 per diluted for share during the year ended December 31, 2016. Included in net income available to common shareholders for 2017 periods, is \$890 thousand, or \$0.19 per diluted share, of income tax expense related to the revaluation of our deferred tax asset as a result of the Tax Cuts and Job Act. Excluding the deferred tax adjustment, net income would have been \$662 thousand and \$1.7 million, or \$.14 and \$0.34 per diluted share, respectively, for the three and twelve months ended December 31, 2017. This write down is a onetime adjustment to the provision for taxes due to the tax rate change and our future earnings will be taxed on a much lower rate creating more earnings in future periods.

As you will also note in the following financial information, our earnings for the year ended December 31, 2017 have fallen from the year ended December 31, 2016. The lower net income in 2017 year is primarily due to an increase of \$2.8 million in the provision for loan losses and \$2.3 million increase in employment expenses which both support our asset growth. Over the last two years, we have made investments to expand our footprint in the top three metropolitan areas of South Carolina, and we are beginning to see the results in the growth of our balance sheet.

We expect our overall results to continue to improve as our seasoned bankers begin to share our relationship banking approach throughout their markets. 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 loss for the quarter ended December 31, 2017 was \$228 thousand compared to net income of \$385 thousand during the quarter ended December 31, 2016.

Overview

- Net loans increased by \$43.1 million, or 8.60%, during the quarter.
- Core bank loan growth of \$44.5 million, or 11.56% during the quarter.
- Core bank loan charge off ratio year to date of 0.08%.
- Deferred tax asset adjustment of \$890.0 thousand due to new federal corporate tax rate.
- GrandSouth Bancorporation's efficiency ratio increased to 76.76% during the fourth quarter of 2017 compared to 74.30% during the fourth quarter of 2016.

Net Interest Income

During the fourth quarter of 2017, net interest income before the provision for loan losses was \$8.3 million, up from \$7.4 million during the fourth quarter of 2016. Average loans during the fourth quarter of 2017 were \$530.1 million compared to \$404.3 million during the same period last year. The net interest margin was 5.66% in the fourth quarter of 2017, down from 6.41% in the fourth quarter of 2016 and down from 5.73% in the prior quarter.

Noninterest income

Noninterest income was \$245 thousand during the fourth quarter of 2017, compared to \$372 thousand during the same quarter of 2016.

Noninterest Expense

Noninterest expense was \$6.6 million for the fourth quarter of 2017 compared to \$5.8 million for the fourth quarter of 2016. Growth in non-interest expense during the quarter was impacted by the Company's in-process expansion of new offices in the Columbia, Orangeburg and Charleston, S.C. markets. Employee compensation increased by \$780 thousand compared to the fourth quarter of 2016.

The efficiency ratio decreased to 76.76% during the quarter ended December 31, 2017 from 74.30% during the fourth quarter of 2016.

Loan Portfolio

Net loan growth in the fourth quarter of 2017 was \$43.1 million. Core bank loans grew \$44.5 million, or 11.56% while the specialty floor plan finance loans grew \$1.6 million or 2.02% and purchased student loans declined \$2.4 million or 5.20%.

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

	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Loans secured by real estate:		
Commercial, financial and agricultural	\$ 157,074	\$ 130,577
Real estate - construction, land development and other land loans	54,580	38,371
Real estate - mortgage	289,029	214,679
Installment loans to individuals	50,711	35,164
Loans, gross	551,394	418,791
Allowance for possible loan losses	(7,414)	(5,158)
Loans, net	\$ 543,980	\$ 413,633

Loan Loss Provision/Asset Quality

The loan loss provision for the quarter ended December 31, 2017 was \$935 thousand, compared to \$1.4 million for the same period last year. Net charge offs for the three months ended December 31, 2017 were \$364 thousand, compared to \$608 thousand for the same period in 2016.

OREO as of December 31, 2017 and 2016 was \$4.9 million. Nonaccrual loans were \$1.7 million at December 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 December 31, 2017 was 1.34%, 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 \$21.4 million at December 31, 2017 down from \$25.5 million at December 31, 2016.

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

- callable agency securities in the amount of \$5.9 million
- residential government-sponsored mortgage-backed securities in the amount of \$12.7 million
- taxable municipal bonds in the amount of \$1.0 million
- nontaxable municipal bonds in the amount of \$1.8 million

During the fourth quarter of 2017, one municipal security in the amount of \$720 thousand was called.

Deposits

Total deposits were \$570.0 million at December 31, 2017 compared to \$430.3 million at December 31, 2016. Interest-bearing accounts were \$480.3 million at December 31, 2017 up from \$360.4 million at December 31, 2016. Noninterest bearing accounts grew 28.35% from \$69.9 million at December 31, 2016 to \$89.7 million at December 31, 2017.

Shareholders' Equity

Total shareholders' equity decreased from \$50.7 million at December 31, 2016 to \$50.6 million at December 31, 2017, the activity 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 10.46% and 10.43% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of December 31, 2017.

GrandSouth Bancorporation is a bank holding company with assets of \$653.7 million at December 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.

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)

	December 31, 2017	December 31, 2016
(Dollars in thousands)		
Assets		
Cash and due from banks	\$ 22,799	\$ 34,923
Interest bearing transaction accounts with other banks	14,290	3,086
Federal funds sold	4,368	5,309
Cash and cash equivalents	41,457	43,318
Certificates of deposit with other banks	13,500	2,500
Securities available-for-sale	21,440	25,543
Other investments, at cost	1,271	1,319
Loans, gross	551,394	418,791
Allowance for loan losses	(7,414)	(5,158)
Loans, net of allowance for loan losses	543,980	413,633
Premises and equipment, net	12,215	10,211
Bank owned life insurance	6,543	6,390
Assets acquired in settlement of loans	4,923	4,902
Interest receivable	4,728	3,755
Deferred income taxes	1,664	1,530
Goodwill	737	737
Other assets	1,275	1,676
Total assets	\$ 653,733	\$ 515,514
Liabilities and shareholders' equity		
Deposits		
Noninterest bearing	\$ 89,688	\$ 69,878
Interest bearing	480,310	360,449
Total deposits	569,998	430,327
Federal Home Loan Bank advances	19,000	22,000
Other borrowings	550	0
Junior subordinated debentures	8,247	8,247
Interest payable	208	111
Other liabilities	5,097	4,140
Total liabilities	603,100	464,825
Shareholders' equity	50,633	50,689
Total liabilities and shareholders' equity	\$ 653,733	\$ 515,514

Condensed Consolidated Statements of Income
(Unaudited)

	For the three months ended December 31,		For the twelve months ended December 31,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Interest income	\$ 9,851	\$ 8,149	\$ 37,155	\$ 29,942
Interest expense	1,513	744	4,937	2,521
Net interest income	8,338	7,405	32,218	27,421
Provision for loan losses	935	1,354	6,089	3,269
Net interest income after provision for loan losses	7,403	6,051	26,129	24,152
Noninterest income				
Service charges on deposit accounts	139	128	530	441
Gain on sale of securities	-	114	10	120
Net gain on sale of premises and equipment	33	(14)	19	11
Increase in value of life insurance assets	37	41	152	164
Other	36	103	172	272
Total noninterest income	245	372	883	1,008
Noninterest expense				
Salaries and employee benefits	4,103	3,323	15,218	12,905
Premises and equipment	481	445	1,808	1,441
Loss on sale and impairment of assets acquired in settlement of loans	201	(14)	208	(325)
Data processing	313	279	1,248	1,014
Other expenses	1,491	1,746	5,744	5,066
Total noninterest expense	6,589	5,779	24,223	20,101
Income before income taxes	1,059	644	2,789	5,059
Income tax provision	1,287	259	1,999	1,875
Net income	(228)	385	790	3,184
Deductions for amounts not available to common shareholders: Dividends declared or accumulated on preferred stock	-	(30)	(91)	(121)
Net income available to common Shareholders	\$ (228)	\$ 355	\$ 699	\$ 3,063

Financial Highlights
(Unaudited)

	For the three months ended December 31,		For the twelve months ended December 31,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Per share data:				
Earnings per share, basic	\$ (0.05)	\$ 0.08	\$ 0.16	\$ 0.68
Earnings per share, diluted	\$ (0.05)	\$ 0.08	\$ 0.15	\$ 0.68
Book value per share	\$ 10.96	\$ 10.83	\$ 10.96	\$ 10.83
Tangible book value per share	\$ 10.79	\$ 10.67	\$ 10.79	\$ 10.67
Weighted average shares				
outstanding, basic	4,502,190	4,676,376	4,498,555	4,510,357
Weighted average shares				
outstanding, diluted	4,595,513	4,588,865	4,593,664	4,535,682
Shares outstanding at end of period	4,502,190	4,558,975	4,502,190	4,558,975

Selected performance ratios and other data:

Return on average assets	-0.14%	0.31%	0.14%	0.69%
Return on average equity	-1.77%	3.00%	1.54%	6.22%
Yield on average earning assets	5.50%	6.29%	5.81%	6.30%
Cost of funds	1.22%	0.80%	1.09%	0.72%
Net interest margin	5.66%	6.41%	5.97%	6.38%
Efficiency ratio	76.76%	74.30%	73.18%	70.70%
Charge-offs, net to average loans	0.27%	0.60%	0.80%	0.65%

	As of	
	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Shareholders' equity to total assets	7.75%	9.83%
Tier 1 risk-based capital ratio	10.46%	13.90%
Intangible assets		
Goodwill	\$ 737	\$ 737
Other real estate owned	\$ 4,923	\$ 4,902
Nonaccrual loans	1,745	2,935
Loans past due 90 days and accruing interest (a)	61	82
Total nonperforming assets	6,729	7,919
Allowance for loan losses to loans, gross	1.34%	1.23%

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