

GrandSouth Bancorporation reports third quarter 2018 earnings of \$1.4 million

GREENVILLE, SC, October 18, 2018

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

GrandSouth Bancorporation continued to grow in the third quarter with growth in total assets of \$11.8 million, or 1.62%, for the quarter and \$86.5 million, or 13.24%, year to date bringing total assets to \$740.3 million as of September 30, 2018. The asset growth was primarily driven by an increase in gross loans of \$27.6 million, or 4.55%, for the quarter and \$81.7 million, or 14.83%, year to date with the Orangeburg and Charleston markets leading the way, representing 43.55% and 59.21% of the growth for the quarter and year to date, respectively. Loan growth was funded by growth in our deposit portfolio, FHLB advances and excess cash. The deposit portfolio grew by \$2.5 million, or 0.39%, for the quarter and \$85.4 million, or 14.98%, year to date. Noninterest bearing deposits shrank by \$1.5 million, or 1.46%, during the quarter and grew by \$13.0 million, or 14.48% year to date. The Orangeburg market was the biggest contributor to the overall deposit growth during the third quarter.

Asset quality continues to be one of the main focuses of the Company. Nonperforming assets have decreased \$468 thousand, or 9.23%, during the third quarter and \$2.1 million, or 31.62%, year to date. As a percentage of total assets, nonperforming assets have fallen to 0.62% at September 30, 2018, down from 0.70% as of June 30, 2018 and 1.03% as of December 31, 2017. Total past due accruing loans, net of the amounts guaranteed by the U.S. government, decreased to 0.09% of total gross loans as of September 30, 2018 from 0.16% as of June 30, 2018 and 0.06% as of December 31, 2017.

Our specialty floor plan lending division credit loss rate increased to an annualized rate of 2.57% in the third quarter, and 1.82% for the year to date. This quarterly rate is up from 1.20% from the second quarter of 2018. 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 September 30, 2018 was \$1.4 million or \$0.29 per diluted share compared to net income of \$455 thousand or \$0.09 per diluted share for the quarter ended September 30, 2017. For the nine months ending on September 30, 2018, the Company's net income is \$4.5 million, or \$0.91 per diluted share, compared to net income of \$1.0 million, or \$0.20 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 Schwiens
President & CEO

GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank, announced today that net income for the quarter ended September 30, 2018 was \$1.4 million compared to net income of \$455 thousand during the quarter ended September 30, 2017.

Overview

- Net income for the quarter was \$1.4 million and \$4.5 million for the year to date.
- Net loans increased by \$27.2 million, or 4.55%, during the quarter and \$80.3 million or 14.76% for the first nine months of the year.
- Gross loans excluding specialty floor plan and purchased student loans (“core bank loans”) grew \$28.0 million, or 5.71% during the quarter and \$88.9 million, or 20.72%, during the year to date.
- Net charge off ratios for the Company as a whole were 0.28% and 0.08% for the quarter and nine months ended September 30, 2018, respectively.
- Core bank loan net recovery ratios were 0.04% and 0.20% for the three and nine months ended September 30, 2018, respectively.
- GrandSouth Bancorporation’s efficiency ratio was 72.47% for the third quarter of 2018 compared to 73.11% during the second quarter of 2018, and 74.32% during the third quarter of 2017.

Net Interest Income

Net interest income before provision for loan losses increased from \$8.1 million during the third quarter of 2017 to \$9.1 million for the same period in 2018. For the nine months ended September 30, 2018, net interest income was \$26.5 million as compared to \$23.9 million for the same period in 2017.

Gross loans averaged \$616.3 million and \$593.1 million for the three and nine months ended September 30, 2018, respectively. For the same periods in 2017, gross loans averaged \$487.8 million and \$463.4 million, respectively.

Respectively, the net interest margin of the Company for the three and nine months ended September 30, 2018 were 5.35% and 5.42%, compared to 5.73% and 6.13% for the same periods in 2017.

Noninterest Income

Noninterest income was \$262 thousand and \$103 thousand for the quarters ended September 30, 2018 and 2017, respectively, and \$855 thousand and \$638 thousand for the nine months ended September 30, 2018 and 2017, respectively.

Noninterest Expense

For the quarters ended September 30, 2018 and 2017, respectively, noninterest expense was \$6.8 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 \$489 thousand increase in employee compensation and a \$173 loss on sale of real estate acquired in the settlement of loans.

For the nine months ended September 30, 2018 and 2017, noninterest expense was \$19.7 million and \$17.6 million, with \$1.4 million and \$293 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 improved to 72.47% during the quarter ended September 30, 2018 from 74.32% during the third quarter of 2017.

Loan Portfolio

Gross loan growth was \$27.6 million and \$81.7 million in three and nine months ended September 30, 2018, respectively. Core bank loans grew by \$28.0 million, or 5.71%, and \$88.9 million, or 20.72%, during the same periods.

Specialty floor plan loans grew by \$1.5 million, or 2.05%, and declined by \$2.0 million, or 2.52%, during the three and nine months ended September 30, 2018.

Purchased student loans continued to experience paydowns totaling \$2.0 million, or 4.94%, during the third quarter and \$5.2 million, or 11.96% during the year to date.

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

	September 30, 2018	June 30, 2018	December 31, 2017
	(Dollars in thousands)		
Commercial, financial and agricultural	\$ 102,796	\$ 95,114	\$ 78,335
Specialty floor plan loans	76,756	75,211	78,739
Real estate - construction, land development and other	59,603	63,151	54,580
Real estate – mortgage	346,024	323,101	289,029
Purchased student loans	38,298	40,287	43,500
Installment loans to individuals	9,663	8,717	7,211
Loans, gross	633,140	605,581	551,394
Allowance for possible loan losses	(8,864)	(8,468)	(7,414)
Loans, net	<u>\$ 624,276</u>	<u>\$ 597,113</u>	<u>\$ 543,980</u>

Loan Loss Provision/Asset Quality

For the quarter and nine months ended September 30, 2018, the loan loss provision was \$827 thousand and \$1.8 million, respectively. For the same periods in 2017, the loan loss provision was \$1.3 million and \$5.2 million. The Company had net charge offs for the three and nine months ended September 30, 2018 of \$431 thousand and \$368 thousand as compared to net charge offs of \$901 thousand and \$3.5 million for the same periods last year.

Real estate acquired in the settlement of loans were \$2.9 million at September 30, 2018, \$3.1 million at June 30, 2018 and \$4.9 million as of December 31, 2017. Nonaccrual loans were \$1.6 million at September 30, 2018, \$1.9 million at June 30, 2018 and \$1.7 million at December 31, 2017.

The Company's allowance for loan losses as a percentage of total loans at September 30, 2018 was 1.40%, compared to 1.40% and 1.34% at June 30, 2018 and December 31, 2017, respectively. The Company's management believes the allowance is adequate and 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 \$40.9 million at September 30, 2018 up from \$25.8 million and \$21.4 million at June 30, 2018 and December 31, 2017, respectively.

Securities in our investment portfolio as of September 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 \$18.8 million
- taxable municipal bonds in the amount of \$1.0 million
- nontaxable municipal bonds in the amount of \$6.4 million
- treasury securities in the amount of \$8.9 million

During the quarter, the Company purchased three municipal bonds for \$3.6 million, two residential government-sponsored mortgage-backed securities for \$3.5 million and four treasury securities for \$8.9 million. No securities were called during the third quarter of 2018.

Deposits

Total deposits increased by \$2.5 million, or 0.39%, and \$85.4 million, or 14.98%, during the three and nine months ended September 30, 2018, when the balance stood at \$655.4 million. Interest bearing deposits were \$552.7 million at quarter end, reflecting a \$4.1 million, or 0.74%, and \$72.4 million, or 15.07%, increase for the three and nine months then ended. Noninterest bearing deposits decreased \$1.5 million, or 1.46%, and increased \$13.0 million, or 14.48%, for the quarter and year to date ended September 30, 2018.

Shareholders' Equity

Shareholders' equity was \$55.2 million at September 30, 2018, a \$1.5 million, or 2.76%, and \$4.6 million, or 9.10%, increase for the three and nine 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 10.08% and 9.99% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of September 30, 2018.

GrandSouth Bancorporation is a bank holding company with assets of \$739.6 million at September 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 and a loan production office in 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. 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)

	September 30, 2018	June 30, 2018	December 31, 2017
(Dollars in thousands)			
Assets			
Cash and due from banks	\$ 27,075	\$ 37,997	\$ 22,799
Interest bearing transaction accounts with other banks	397	7,071	14,290
Federal funds sold	678	13,079	4,368
Cash and cash equivalents	28,150	58,147	41,457
Certificates of deposit with other banks	14,750	16,500	13,500
Securities available-for-sale	40,949	25,824	21,440
Other investments, at cost	1,268	907	1,271
Loans, gross	633,140	605,581	551,394
Allowance for loan losses	(8,864)	(8,468)	(7,414)
Loans, net of allowance for loan losses	624,276	597,113	543,980
Premises and equipment, net	12,185	12,053	12,215
Bank owned life insurance	6,651	6,616	6,543
Real estate acquired in settlement of loans	2,883	3,069	4,923
Interest receivable	4,593	4,371	4,728
Deferred income taxes	1,825	1,767	1,664
Goodwill	737	737	737
Other assets	2,003	1,332	1,275
Total assets	\$ 740,270	\$ 728,436	\$ 653,733
Liabilities and shareholders' equity			
Deposits			
Noninterest bearing	\$ 102,679	\$ 104,204	\$ 89,688
Interest bearing	552,704	548,642	480,310
Total deposits	655,383	652,846	569,998
Federal Home Loan Bank advances	16,000	7,000	19,000
Other borrowings	625	625	550
Junior subordinated debentures	8,247	8,247	8,247
Interest payable	324	267	208
Other liabilities	4,450	5,695	5,097
Total liabilities	685,029	674,680	603,100
Shareholders' equity			
Preferred stock - Series A - no par value	1,298	1,298	1,298
Common stock - no par value	33,236	33,020	32,650
Retained earnings	21,438	19,991	16,921
Accumulated other comprehensive loss	(731)	(553)	(236)
Total shareholders' equity	55,241	53,756	50,633
Total liabilities and shareholders' equity	\$ 740,270	\$ 728,436	\$ 653,733

Condensed Consolidated Statements of Income
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Interest income	\$ 11,458	\$ 9,519	\$ 32,630	\$ 27,303
Interest expense	<u>2,329</u>	<u>1,402</u>	<u>6,115</u>	<u>3,424</u>
Net interest income	9,129	8,117	26,515	23,879
Provision for loan losses	<u>827</u>	<u>1,348</u>	<u>1,818</u>	<u>5,154</u>
Net interest income after provision for loan losses	8,302	6,769	24,697	18,725
Noninterest income				
Service charges on deposit accounts	173	127	483	391
Gain on sale of securities	0	0	0	10
Net gain (loss) on sale of premises and equipment	6	(12)	135	(14)
Increase in value of life insurance assets	36	38	108	115
Other	<u>47</u>	<u>(50)</u>	<u>129</u>	<u>136</u>
Total noninterest income	262	103	855	638
Noninterest expense				
Salaries and employee benefits	4,227	3,738	12,465	11,115
Premises and equipment	532	460	1,487	1,326
Loss on sale and impairment of real estate acquired in settlement of loans	173	0	297	4
Data processing	399	343	1,052	936
Other expenses	<u>1,475</u>	<u>1,568</u>	<u>4,393</u>	<u>4,252</u>
Total noninterest expense	<u>6,806</u>	<u>6,109</u>	<u>19,694</u>	<u>17,633</u>
Income before income taxes	1,758	763	5,858	1,730
Income tax provision	<u>311</u>	<u>308</u>	<u>1,341</u>	<u>712</u>
Net income	1,447	455	4,517	1,018
Deductions for amounts not available to common shareholders: Dividends declared or accumulated on preferred stock	<u>0</u>	<u>(30)</u>	<u>0</u>	<u>(91)</u>
Net income available to common Shareholders	<u>\$ 1,447</u>	<u>\$ 425</u>	<u>\$ 4,517</u>	<u>\$ 927</u>

Financial Highlights
(Unaudited)

For the three months
ended September 30,
2018 2017 For the nine months
ended September 30,
2018 2017

(Dollars in thousands)

Per share data:

Earnings per share, basic	\$ 0.32	\$ 0.09	\$ 1.00	\$ 0.21
Earnings per share, diluted	\$ 0.29	\$ 0.09	\$ 0.91	\$ 0.20
Book value per share	\$ 11.85	\$ 11.00	\$ 11.85	\$ 11.00
Tangible book value per share	\$ 11.69	\$ 10.83	\$ 11.69	\$ 10.83
Weighted average shares outstanding, basic	4,521,230	4,502,011	4,511,623	4,497,330
Weighted average shares outstanding, diluted	4,915,760	4,595,189	4,941,966	4,593,048
Shares outstanding at end of period	4,552,490	4,502,190	4,552,490	4,502,190

Selected performance ratios and other data:

Annualized return on average assets	0.79%	0.30%	0.86%	0.24%
Annualized return on average equity	10.51%	3.55%	11.38%	2.65%
Annualized yield on average earning assets	5.19%	5.56%	5.25%	5.93%
Cost of funds	1.64%	1.13%	1.49%	1.01%
Annualized net interest margin	5.35%	5.73%	5.42%	6.13%
Efficiency ratio	72.47%	74.32%	71.95%	71.92%
Annualized charge-offs, net to average loans	0.28%	0.74%	0.08%	1.00%

September 30, June 30, December 31,
2018 2018 2017
(Dollars in thousands)

Shareholders' equity to total assets	7.46%	7.38%	7.75%
Tier 1 risk-based capital ratio	10.08%	10.23%	10.47%
Intangible assets			
Goodwill	\$ 737	\$ 737	\$ 737
Other real estate owned	2,883	3,069	4,923
Nonaccrual loans	1,644	1,944	1,745
Loans past due 90 days and accruing interest (a)	74	56	61
Total nonperforming assets	4,601	5,069	6,729
Allowance for loan losses to loans, gross	1.40%	1.40%	1.34%

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