GrandSouth Bancorporation announces third quarter 2017 earnings; exceptional loan and deposit growth; elects to suspend cash dividend

GREENVILLE, SC, November 29, 2017
GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank

GrandSouth Bancorporation had an excellent third quarter of growth in total assets. Total assets grew 29.59% year over year from $482.2 million as of September 30, 2016 to $624.9 million as of September 30, 2017. For the quarter, total assets grew approximately $21.0 million or 3.48% from June 30, 2017. We continue to be excited about our entrance into the three markets of Orangeburg, Columbia and Charleston. The experienced teams we have added and the robust economies in these markets are continuing to give us excellent opportunities for growth. This is in addition to our existing Upstate South Carolina market that also continues to grow and expand with the additions we made in 2015 and 2016. The new markets mentioned above accounted for 61.31% of the increase in total assets year over year.

The Company's expansion strategy toward becoming a statewide bank is well underway. Our expansion, unfortunately, has negatively affected the earnings of the Company over the last several quarters. Management believes that the investment needed to expand into these new markets with the great teams in place is a decision that will pay many dividends into the future. As such, our need for capital to grow coupled with lower earnings, have contributed to our decision to suspend the quarterly cash dividend. While this was a difficult decision to make, management believes that our shareholders will be better served by our expected growth and geographic expansion.

The GDP for the state of South Carolina continues to exceed the national average. Last year the Charleston-North Charleston metro complex grew at a pace nearly double the national average. All of the markets in the Bank's footprint appear to be benefiting from increased economic activity. As such, business and consumer confidence in the Bank's footprint continues to drive robust loan demand. For the quarter, loans excluding specialty floor plan and purchased student loans ("core bank loans") grew $38.6 million or 11.17%. Total loans grew $34.5 million or 7.29%. Year to date, core bank loans grew $77.1 million or 25.08%. Total gross loans grew from $418.8 million as of December 31, 2016 to $507.7 million as of September 30, 2017. This $88.9 million increase represents 21.24% growth in nine months. The majority of this growth came from our Greenville, Orangeburg and Charleston markets.

Total deposits have grown $35.3 million from the previous quarter, or 6.78%, and are up 28.77% from the previous year end. As of September 30, 2017, deposits totaled $554.1 million. The addition of commercial and treasury management calling officers and expansion into new markets continues to benefit our deposit acquisition efforts. Total noninterest bearing deposits have grown 20.68% year to date. The Columbia and Orangeburg markets have been big contributors to overall deposit growth. Columbia ended the quarter with total deposits of $46.3 million and had a 25.54% increase from the prior quarter. Orangeburg ended the quarter at $53.0 million in deposits and had a 20.98% increase from the previous quarter. With the growth of our core deposit base, we are pleased to report our wholesale funding continues to decline and is down 54.71% since September 30, 2016.

Our specialty floor plan division results for the third quarter of 2017 continued to be positive. There were charge offs of $664 thousand during the quarter, equating to an annualized loss rate of 3.41%, compared to $751 thousand during the second quarter of 2017, an annualized loss rate of 3.78%. The charge offs for the specialty floor plan division represent 87.80% of total Bank charge offs year to date. Although the charge off rates are greater than management would like, the division continues to be a positive contributor to the earnings of the company and we are excited about the future of the division. While the last two quarters have shown improvement with the loss rates trending in the right direction, we continue to monitor trends and credit within the portfolio and will make changes as necessary to mitigate charge offs in future quarters. We have been operating this division for over 10 years and have experienced management in place.

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 ended September 30, 2017 have improved from the third quarter of 2016. As we mentioned previously, our earnings are not at the level of previous years. 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 2017.

Sincerely,

JB Schwiers
President & CEO

GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank, announced today that net income for the quarter ended September 30, 2017 was $455 thousand compared to $127 thousand during the quarter ended September 30, 2016.

Overview

- Net loans increased by $34.0 million, or 7.29%, during the quarter.
- Core bank loan growth of $38.6 million, or 11.17% during the quarter.
- Core bank loan charge off ratio year to date of 0.10%.
- GrandSouth Bancorporation's efficiency ratio improved to 74.32% during the third quarter of 2017 compared to 85.19% during the third quarter of 2016.
- GrandSouth Bancorporation's return on average assets was 0.30% during the third quarter of 2017 compared to 0.11% in the same quarter last year.
- The return on average equity was 3.55% in the third quarter of 2017, up from 0.96% in the third quarter of 2016.

<u>Net Interest Income</u>

During the third quarter of 2017, net interest income before the provision for loan losses was $8.1 million, up from $6.7 million during the third quarter of 2016. Average loans during the third quarter of 2017 were $487.8 million compared to $369.6 million during the same period last year. The net interest margin was 5.73% in the third quarter of 2017, down from 6.15% in the third quarter of 2016 and down from 5.89% in the prior quarter.

Noninterest income

Noninterest income was $103 thousand during the third quarter of 2017, compared to $227 thousand during the same quarter of 2016.

Noninterest Expense

Noninterest expense was $6.1 million for the third quarter of 2017 compared to $5.9 million for the third 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 decreased by $27 thousand compared to the third quarter of 2016.

The efficiency ratio decreased to 74.32% during the quarter ended September 30, 2017 from 85.19% during the third quarter of 2016.

Loan Portfolio

Net loan growth in the third quarter of 2017 was $34.0 million. Core bank loans grew $38.6 million, or 11.2% while the specialty floor plan finance loans and others loans declined $4.2 million or 3.27%.

The composition of our loan portfolio consisted of the following at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Loans secured by real estate:		
Commercial, financial and agricultural	$ 149,438	$ 130,577
Real estate - construction, land development and other land loans	49,537	38,371
Real estate - mortgage	256,383	214,679
Installment loans to individuals	52,375	35,164
Loans, gross	507,733	418,791
Allowance for possible loan losses	(6,843)	(5,158)
Loans, net	$ 500,890	$ 413,633

Loan Loss Provision/Asset Quality

The loan loss provision for the quarter ended September 30, 2017 was $1.3 million, compared to $790 thousand for the same period last year. Net charge offs for the three months ended September 30, 2017 were $901 thousand, compared to $724 thousand for the same period in 2016.

OREO as of September 30, 2017 was $5.8 million compared to $4.9 million as of the end of the previous year. Nonaccrual loans were $2.1 million at September 30, 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 September 30, 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.

<u>Securities Portfolio</u>
Investment securities, all of which are available-for-sale, were $22.9 million at September 30, 2017 down from $25.5 million at December 31, 2016.

Securities in our investment portfolio as of September 30, 2017 were as follows:

- callable agency securities in the amount of $5.9 million
- residential government-sponsored mortgage-backed securities in the amount of $13.4 million
- taxable municipal bonds in the amount of $1.0 million
- nontaxable municipal bonds in the amount of $2.6 million

During the third quarter of 2017, one municipal security in the amount of $550 thousand was called.

<u>Deposits</u>
Total deposits were $554.1 million at September 30, 2017 compared to $430.3 million at December 31, 2016. Interest-bearing accounts were $469.8 million at September 30, 2017 up from $360.4 million at December 31, 2016. Noninterest bearing accounts grew 21% from $69.9 million at December 31, 2016 to $84.3 million at September 30, 2017.

<u>Shareholders’ Equity</u>
Total shareholders’ equity increased from $50.7 million at December 31, 2016 to $50.8 million at September 30, 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 11.67% and 11.54% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of September 30, 2017.

GrandSouth Bancorporation is a bank holding company with assets of $624.9 million at September 30, 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.

<u>Forward-Looking Statements</u>
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, 2017	December 31, 2016
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 46,175	$ 34,923
Interest bearing transaction accounts with other banks	1,067	3,086
Federal funds sold	6,018	5,309
Cash and cash equivalents	53,260	43,318
Certificates of deposit with other banks	13,750	2,500
Securities available-for-sale	22,881	25,543
Other investments, at cost	761	1,319
Loans, gross	507,733	418,791
Allowance for loan losses	(6,843)	(5,158)
Loans, net of allowance for loan losses	500,890	413,633
Premises and equipment, net	12,209	10,211
Bank owned life insurance	6,506	6,390
Assets acquired in settlement of loans	5,833	4,902
Interest receivable	4,289	3,755
Deferred income taxes	1,482	1,530
Goodwill	737	737
Other assets	2,336	1,676
Total assets	$ 624,934	$ 515,514
Liabilities and shareholders’ equity		
Deposits		
Noninterest bearing	$ 84,326	$ 69,878
Interest bearing	469,794	360,449
Total deposits	554,120	430,327
Federal Home Loan Bank advances	7,000	22,000
Other borrowings	550	0
Interest payable	185	111
Other liabilities	4,026	4,140
Total liabilities	574,128	464,825
Shareholders’ equity	50,806	50,689
Total liabilities and shareholders’ equity	$ 624,934	$ 515,514

Condensed Consolidated Statements of Income
(Unaudited)

	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
	(Dollars in thousands)			
Interest income	$ 9,519	$ 7,302	$ 27,303	$ 21,793
Interest expense	1,402	629	3,424	1,777
Net interest income	8,117	6,673	23,879	20,016
Provision for loan losses	1,348	790	5,154	1,915
Net interest income after provision for loan losses	6,769	5,883	18,725	18,101
Noninterest income				
Service charges on deposit accounts	127	106	391	313
Gain on sale of securities	0	0	10	6
Net gain on sale of premises and equipment	(12)	19	(14)	25
Increase in value of life insurance assets	38	42	115	123
Other	(50)	60	136	169
Total noninterest income	103	227	638	636
Noninterest expense				
Salaries and employee benefits	3,738	3,765	11,115	9,582
Premises and equipment	460	388	1,326	996
Loss on sale and impairment of assets acquired in settlement of loans	0	(87)	4	(311)
Data processing	343	303	936	735
Other expenses	1,568	1,509	4,252	3320
Total noninterest expense	6,109	5,878	17,633	14,322
Income before income taxes	763	232	1,730	4,415
Income tax provision	308	105	712	1,616
Net income	455	127	1,018	2,799
Deductions for amounts not available to common shareholders:				
Dividends declared or accumulated on preferred stock	(30)	(30)	(91)	(121)
Net income available to common Shareholders	$ 425	$ 97	$ 927	$ 2,678

Financial Highlights
(Unaudited)

	For the three months ended September 30, 2017	For the three months ended September 30, 2016	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
	(Dollars in thousands)			
Per share data:				
Earnings per share, basic	$ 0.09	$ 0.02	$ 0.21	$ 0.60
Earnings per share, diluted	$ 0.09	$ 0.02	$ 0.20	$ 0.60
Book value per share	$ 11.00	$ 11.15	$ 11.00	$ 11.15
Tangible book value per share	$ 10.83	$ 10.99	$ 10.83	$ 10.99
Weighted average shares outstanding, basic	4,502,011	4,557,455	4,497,330	4,415,118
Weighted average shares outstanding, diluted	4,595,189	4,665,298	4,593,048	4,522,725
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	0.30%	0.11%	0.24%	0.83%
Return on average equity	3.55%	0.96%	2.65%	7.30%
Yield on average earning assets	5.56%	6.04%	5.93%	6.30%
Cost of funds	1.13%	0.68%	1.01%	0.65%
Net interest margin	5.73%	6.15%	6.13%	6.43%
Efficiency ratio	74.32%	85.19%	71.92%	69.35%
Charge-offs, net to average loans	0.74%	0.78%	1.00%	0.67%

	As of September 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Shareholders' equity to total assets	8.13%	9.83%
Tier 1 risk-based capital ratio	11.67%	13.90%
Intangible assets		
Goodwill	$ 737	$ 737
Other real estate owned	$ 5,833	$ 4,902
Nonaccrual loans	2,114	2,935
Loans past due 90 days and accruing interest (a)	135	82
Total nonperforming assets	8,082	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.