

GrandSouth BANCORPORATION

Dear Shareholders,

We are pleased to give you an update on our strategic growth plan and our financial results through September 30, 2016. After successfully raising additional capital in February of this year, we immediately began to put it to work by recruiting some of the best banking talent in SC. Our commitment to ensuring that our growth in assets be of the highest quality led to a substantial investment and restructuring of our credit department. In November of 2015, we hired Richard Harrington as our SVP and Chief Credit Officer. He has over 25 years of credit experience working with First Union, Summit National Bank, and First Citizens. Richard has three highly trained credit analysts on his team to support our underwriting process. These additions have allowed us to enhance our analysis of risk, credit policy, accuracy of credit grading, and the calculation of the allowance for loan loss reserve. This is the foundation that is required to build quality loan growth.

We continued to invest our capital by opening branches in 3 new markets within the past year. Our Greer office opened in December 2015 and is led by our Market President, Jack Lucas. Jack has 26 years of banking experience having worked with BB&T, where he served as their Market President in Greer. He joined our company in July 2014. In less than a year our Greer office has grown to \$21 million in deposits and \$25 million in loans. In August of 2016, we opened in Columbia and hired David Anderson as our Market President. David has over 38 years of experience in banking having worked with C&S, Nations Bank, and First Citizens. Our Columbia office is located at 1901 Assembly Street. In September of 2016, we opened in Orangeburg and hired Michael Delaney as our Market President. Michael has 18 years of banking experience having worked at First Union, South State and First Citizens. Our Orangeburg office is located at 1085 Saint Matthews Road.

All of our new hires were strategically recruited and are very experienced. They know their markets and how to do their jobs. They are all bankers that produce at high levels and have managed large high quality portfolios.

As you will note in the following financial report, our 3rd quarter earnings are down substantially from the same period last year. Noninterest expense for the 3rd quarter of this year increased by 45% to \$5.9 million from \$4.1 million for the 3rd quarter of 2015. This is the result of our investment in human resources and expansion into three markets. Additionally, there were approximately \$700 thousand in non-recurring expenses related to a negotiated settlement of an employment contract and fees associated with the settlement of an interest swap contract. The bank also recorded a larger provision in the allowance for loan loss in the amount of \$790

thousand for the 3rd quarter of this year compared to \$390 thousand for the 3rd quarter of 2015. This increase was related to a write down of two loans that experienced a decline in collateral value.

Total assets grew 13.7% to \$482 million from \$424 million at September 30, 2015. Total loans grew by 10% for that same period with the majority of growth coming in the third quarter of this year. Total deposits grew by 23% to \$374 million compared to \$304 million at September 30, 2015. This improved the banks liquidity and lowered our loan to deposit ratio to 95%. Additionally, we decreased our outstanding wholesale funding balance by 34% year over year.

We believe the investments we have made in human resources and moving into new markets will provide long term growth and profitability for our company. In closing, I would like to mention that we have hired a new Human Resources Director, Mike West, who brings great knowledge in talent acquisition, performance based evaluations, strategic planning, employment law, and succession planning.

We think the investments we have made in our Credit and Human Resources areas are a very important component of our growth strategy. Our goal is to give our customers exceptional service, provide financial products they need, and extend credit on terms they can repay. Our company will always put quality and integrity before growth. Our mission is to always do the right thing for our customers, shareholders, and employees.

Sincerely,

JB Schwiers
President

GrandSouth Bancorporation reports earnings for the third quarter of 2016 of \$127 thousand and declares a dividend of \$0.10 per common share.

GREENVILLE, SC, November 4, 2016 -- GrandSouth Bancorporation (GRRB), the holding company for GrandSouth Bank, announced today that net income for the quarter ended September 30, 2016 was \$127 thousand compared to \$1.4 million during the quarter ended September 30, 2015.

The Board of Directors declared a dividend of \$0.10 per common share (\$0.105 per Series A preferred share) payable on November 25, 2016 to shareholders of record on November 10, 2016. This is our fourteenth consecutive quarterly dividend.

Overview

- Net loans increased by \$22.58 million, or 6.31%, during the quarter.
- GrandSouth Bancorporation's efficiency ratio was 85.19% during the third quarter of 2016 compared to 61.78% during the third quarter of 2015.
- GrandSouth Bancorporation's return on average assets was 0.11% during the third quarter of 2016 compared to 1.32% in the same quarter last year.
- The return on average equity was 0.96% in the third quarter of 2016, down from 12.58% in the third quarter of 2015.

Net Interest Income

During the third quarter of 2016, net interest income before the provision for loan losses was \$6.7 million, up from \$6.4 million during the third quarter of 2015. Average loans during the third quarter of 2016 were \$369.6 million compared to \$345.0 million during the same period last year. The net interest margin was 6.15% in the third quarter of 2016, down from 6.65% in the third quarter of 2015 and down from 6.35% in the prior quarter.

Noninterest income

Noninterest income was \$227 thousand during the third quarter of 2016, compared to \$193 thousand during the same quarter of 2015.

Noninterest Expense

Noninterest expense was \$5.9 million for the third quarter of 2016 compared to \$4.1 million for the third quarter of 2015. Growth in non-interest expense during the quarter was impacted by the Company's in-process expansion of two new offices in the Columbia and Orangeburg, S.C. markets. Employee compensation increased by \$1.3 million compared to the third quarter of 2015. Additionally, there were approximately \$700 thousand in non-recurring expenses related to a negotiated settlement of an employee contract and fees associated with the settlement of an interest swap contract. During the third quarter of 2016, we sold \$106 thousand of other real estate owned (OREO) properties recognizing gains of \$97 thousand, and we recognized impairment in the amount of \$10 thousand on OREO properties resulting in a net gain of \$87 thousand. This compared to a loss on OREO of \$126 thousand for the third quarter of 2015.

The efficiency ratio increased to 85.19% during the quarter ended September 30, 2016 from 61.78% during the third quarter of 2015.

Loan Portfolio

Net loan growth in the third quarter of 2016 was \$22.58 million.

The composition of our loan portfolio consisted of the following at September 30, 2016 and December 31, 2015:

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
	(Dollars in thousands)	
Loans secured by real estate:		
Commercial, financial and agricultural	\$ 111,990	\$ 100,485
Real estate - construction, land development and other land loans	37,041	47,714
Real estate - mortgage	200,101	182,284
Installment loans to individuals	<u>35,642</u>	<u>38,867</u>
Loans, gross	384,774	369,350
Allowance for possible loan losses	<u>(4,412)</u>	<u>(4,315)</u>
Loans, net	<u>\$ 380,362</u>	<u>\$ 365,035</u>

Loan Loss Provision/Asset Quality

The loan loss provision for the quarter ended September 30, 2016 was \$790 thousand, compared to \$390 for the same period last year. Net charge offs for the three months ended September 30, 2016 were \$724 thousand, compared to \$454 thousand for the same period in 2015.

OREO as of September 30, 2016 was \$4.8 million compared to \$5.3 million as of the end of the previous year. Nonaccrual loans were \$3.5 million at September 30, 2016 compared to \$1.7 million at the end of last year.

GrandSouth Bancorporation's allowance for loan losses as a percentage of total loans at September 30, 2016 was 1.15%, compared to 1.17% at the end of 2015. 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 \$28.5 million at September 30, 2016 up from \$14.9 million at December 31, 2015.

Securities in our investment portfolio as of September 30, 2016 were as follows:

- callable agency securities in the amount of \$10.0 million
- residential government-sponsored mortgage-backed securities in the amount of \$11.6 million and residential government-sponsored collateralized mortgage obligations totaling \$129 thousand
- taxable municipal bonds in the amount of \$1.0 million
- nontaxable municipal bonds in the amount of \$5.8 million

During the third quarter of 2016, we purchased \$2.0 million of callable agency securities and \$4.2 million of residential government-sponsored mortgage-backed securities. Three callable agency securities in the amount of \$5.7 million and one municipal bond in the amount of \$500 thousand were called.

Deposits

Total deposits were \$404.1 million at September 30, 2016 compared to \$350.3 million at December 31, 2015. Interest-bearing accounts were \$336.4 million at September 30, 2016 up from \$304.7 million at December 31, 2015.

Shareholders' Equity

Total shareholders' equity increased from \$42.7 million at December 31, 2015 to \$52.1 million at September 30, 2016 as a result of a previously announced completion of the sale of \$12 million in common stock through a private placement, the redemption of all remaining Series T-3 preferred stock and the retention of earnings. Our Tier 1 Risk Based Capital Ratios were 15.18% and 14.90% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of September 30, 2016.

GrandSouth Bancorporation is a bank holding company with assets of \$482.2 million at September 30, 2016. 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, S.C.

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)

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
(Dollars in thousands)		
Assets		
Cash and due from banks	\$ 13,630	\$ 11,695
Interest bearing transaction accounts with other banks	15,499	456
Federal funds sold	<u>13,438</u>	<u>3,701</u>
Cash and cash equivalents	42,567	15,852
Certificates of deposit with other banks	2,500	2,000
Securities available-for-sale	28,472	14,885
Other investments, at cost	957	1,276
Loans, gross	384,774	369,350
Allowance for loan losses	<u>(4,412)</u>	<u>(4,315)</u>
Loans, net of allowance for loan losses	380,362	365,035
Premises and equipment, net	9,147	8,814
Bank owned life insurance	6,349	6,226
Assets acquired in settlement of loans	4,773	5,275
Interest receivable	3,207	3,133
Deferred income taxes	1,273	1,274
Goodwill	737	737
Other assets	<u>1,889</u>	<u>1,983</u>
Total assets	<u>\$ 482,233</u>	<u>\$ 426,490</u>
Liabilities and shareholders' equity		
Deposits		
Noninterest bearing	\$ 67,688	\$ 45,515
Interest bearing	<u>336,366</u>	<u>304,746</u>
Total deposits	404,054	350,261
Federal Home Loan Bank advances	13,500	22,000
Junior subordinated debentures	8,247	8,247
Interest payable	88	98
Other liabilities	<u>4,219</u>	<u>3,138</u>
Total liabilities	430,006	383,744
Shareholders' equity	<u>52,125</u>	<u>42,746</u>
Total liabilities and shareholders' equity	<u>\$ 482,233</u>	<u>\$ 426,490</u>

Condensed Consolidated Statements of Income
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Interest income	\$ 7,302	\$ 6,908	\$ 21,793	\$ 19,925
Interest expense	<u>629</u>	<u>532</u>	<u>1,777</u>	<u>1,489</u>
Net interest income	6,673	6,376	20,016	18,436
Provision for loan losses	<u>790</u>	<u>390</u>	<u>1,915</u>	<u>390</u>
Net interest income after provision for loan losses	5,883	5,986	18,101	18,046
Noninterest income				
Service charges on deposit accounts	106	71	313	213
Gain on sale of securities	-	21	6	23
Net gain on sale of premises and equipment	19	20	25	88
Increase in value of life insurance assets	42	32	123	94
Other	<u>60</u>	<u>49</u>	<u>169</u>	<u>107</u>
Total noninterest income	227	193	636	525
Noninterest expense				
Salaries and employee benefits	3,765	2,514	9,582	7,110
Premises and equipment	388	247	996	707
Loss on sale and impairment of assets acquired in settlement of loans	(87)	126	(311)	164
Data processing	303	200	735	526
Other expenses	<u>1,509</u>	<u>971</u>	<u>3,320</u>	<u>2,444</u>
Total noninterest expenses	<u>5,878</u>	<u>4,058</u>	<u>14,322</u>	<u>10,951</u>
Income before income taxes	232	2,121	4,415	7,620
Income tax provision	<u>105</u>	<u>760</u>	<u>1,616</u>	<u>2,810</u>
Net income	127	1,361	2,799	4,810
Deductions for amounts not available to common shareholders:				
Dividends declared or accumulated on preferred stock	<u>(30)</u>	<u>(40)</u>	<u>(121)</u>	<u>(118)</u>
Net income available to common shareholders	<u><u>97</u></u>	<u><u>1,321</u></u>	<u><u>2,678</u></u>	<u><u>4,692</u></u>

Financial Highlights
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Per share data:				
Earnings per share, basic	\$ 0.02	\$ 0.38	\$ 0.61	\$ 1.38
Earnings per share, diluted	\$ 0.02	\$ 0.37	\$ 0.59	\$ 1.32
Book value per share	\$ 11.16	\$ 10.56	\$ 11.16	\$ 10.56
Tangible book value per share	\$ 11.00	\$ 10.35	\$ 11.00	\$ 10.35
Weighted average shares outstanding, basic	4,557,455	3,443,933	4,415,118	3,411,363
Weighted average shares outstanding, diluted	4,665,298	3,618,568	4,522,725	3,555,716
Shares outstanding at end of period	4,558,975	3,453,075	4,558,975	3,453,075
Selected performance ratios and other data:				
Return on average assets	0.11%	1.32%	0.83%	1.60%
Return on average equity	0.96%	12.58%	7.30%	15.03%
Net interest margin	6.15%	6.65%	6.43%	6.68%
Efficiency ratio	85.19%	61.78%	69.35%	57.76%
Charge-offs, net to average loans	0.78%	0.52%	0.67%	0.41%

	As of	
	September 30, 2016	December 31, 2015
Shareholders' equity to total assets	10.82%	10.03%
Tier 1 risk-based capital ratio	15.21%	13.61%
Intangible assets		
Goodwill	\$ 737	\$ 737
Other real estate owned	\$ 4,773	\$ 5,275
Nonaccrual loans	3,530	1,685
Loans past due 90 days and accruing interest (a)	115	142
Total nonperforming assets	8,418	7,102
Allowance for loan losses to loans, gross	1.15%	1.17%

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