

GrandSouth Bancorporation reports earnings for the fourth quarter of 2016 of \$356 thousand and declares a dividend of \$0.10 per common share.

GREENVILLE, SC, February 13, 2017

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

GrandSouth Bancorporation had another strong year of growth in total assets for 2016. Our expansion into three new markets combined with organic growth in our legacy branch locations produced total asset growth of approximately 21% year over year. Total assets grew from \$426 million at December 31, 2015 to \$516 million at December 31, 2016. We made a strategic decision to exit the commercial invoice financing business and sold this portfolio of loans in the first quarter of 2016. 2016 was also a year that we made more of an effort to exit loan relationships that failed to meet our quality standards. The sale of loans and quality attrition combined for a \$14 million decline in loans outstanding in the first quarter of the year. Our bank was able to overcome this hurdle and still achieve 13.4% loan growth with 69% of the growth coming in the fourth quarter of 2016.

Total deposits grew by 23% to \$430 million compared to \$350 million at December 31, 2015. Several initiatives contributed to this success. We added a treasury management calling officer in July 2015 with a goal to increase our corporate checking and money market balances. For the first time, our lenders were given goals not only to originate loan relationships but also to originate and expand core deposit relationships. Also in 2016, we worked with our deposit operations team to create branch goals that focused on core deposit growth and non-interest fee income. These combined efforts lead to a 27% increase in core deposits, and a 48% reduction in brokered deposits. Implementing this strategy also achieved 15% growth in our demand deposits, our lowest cost funding source. Our core deposit focus is also responsible for a 48% increase in our money market account balances from \$126 million in 2015 to \$186 million in 2016.

This deposit success accomplished several important things. First, it has repositioned our bank with a more stable funding source with core deposit growth versus non-core fund sources. Second, it has blended a lower cost funding source (checking and money market accounts) with our higher cost funding source making us less reliant on rate sensitive funding sources such as certificates of deposits. Third, it has lowered our loan to deposit ratio and improved our liquidity. We are giving serious consideration to expanding our treasury management sales force to further add and expand core deposit relationships and improve our overall deposit mix.

Our automobile floorplan lending division continued to perform well during 2016. We implemented plans during 2015 to increase the sales effort for the division and this investment is beginning to yield results. The outstanding loan balance for this division increased to \$81.0 million at December 31, 2016. This represents an increase of 38% over the balance at December 31, 2015 of \$58.6 million. The losses as a percentage of average loans outstanding remained steady at 2.53% in 2016 compared to 2.57% in 2015. These losses totaled to \$1.6 million for 2016, or 67% of the net charge offs of the company. Additionally, personnel expenses increased 26% during the year to \$4.2 million.

Investments for future growth of our company are not without cost. Non-interest expense for the fourth quarter of this year increased by 37.5% to \$5.8 million from \$4.2 million in the fourth quarter of 2015. The bulk of this increase is related to staffing cost in our three new markets, adding sales representatives to our floor plan lending division, and premises cost related to our three new markets.

We have also added additional cost in the support areas of credit, deposit operations, and loan operations to support the growth we have experienced and anticipate will continue.

In addition to the increase in non-interest expense cost that we anticipated, we also incurred additional non-interest expense costs that we did not anticipate. We paid \$600 thousand to settle an employment contract, as well as incurring \$800 thousand in legal and accounting fees associated with an investigation into possible wrongdoing by a former customer of the bank and three former employees of the bank.

The bank also took a more conservative posture with loan charge offs, other real estate owned book balances, and the allowance for loan losses. We charged down several loans that were graded substandard and had a decline in collateral value. We continually monitor our other real estate owned values with new appraisals and write down these assets to 85% of the current appraised value. We made larger contributions to the allowance to account for new loan growth and to increase the overall amount as a percentage of total loans. Our allowance as a percentage of total loans was 1.23% at December 31, 2016 compared to 1.17% at the end of 2015.

As you will note in the following financial report, our earnings for the 12 months ending 2016 are down substantially from the same period last year. We believe that the increase in expenses we have incurred going into new markets, in our credit management department, and operations departments are positioning us for long term growth and profitability. We are also confident net interest income growth will accelerate as we realize the annualized impact from the loan growth we experienced in the fourth quarter of 2016. We anticipate that we will continue to experience strong asset growth as our entry in new markets begins to season.

Your executive management team does not take the decline in earnings lightly. While we anticipated our planned expansion and growth would put pressure on earnings, we also realize that it is our job to make our investment in the future provide a return as quickly as possible without sacrificing quality. We appreciate the support from our shareholders and customers and look forward to another strong year of continued success.

Sincerely,

JB Schwiers
President

GrandSouth Bancorporation (GRRB:OTCQB), the holding company for GrandSouth Bank, announced today that net income for the quarter ended December 31, 2016 was \$386 thousand compared to \$1.2 million during the quarter ended December 31, 2015.

The Board of Directors declared a dividend of \$0.10 per common share (\$0.105 per Series A preferred share) payable on February 28, 2017 to shareholders of record on February 15, 2017. This is our fifteenth consecutive quarterly dividend.

Overview

- Net loans increased by \$49.4 million, or 13.4%, during the quarter.
- GrandSouth Bancorporation's efficiency ratio was 74.30% during the fourth quarter of 2016 compared to 63.61% during the fourth quarter of 2015.
- GrandSouth Bancorporation's return on average assets was 0.31% during the fourth quarter of 2016 compared to 1.12% in the same quarter last year.
- The return on average equity was 3.00% in the fourth quarter of 2016, down from 11.25% in the fourth quarter of 2015.

Net Interest Income

During the fourth quarter of 2016, net interest income before the provision for loan losses was \$7.4 million, up from \$6.4 million during the fourth quarter of 2015. Average loans during the fourth quarter of 2016 were \$404.3 million compared to \$361.3 million during the same period last year. The net interest margin was 6.41% in the fourth quarter of 2016, down from 6.42% in the fourth quarter of 2015 and up from 6.15% in the prior quarter.

Noninterest income

Noninterest income was \$372 thousand during the fourth quarter of 2016, compared to \$161 thousand during the same quarter of 2015.

Noninterest Expense

Noninterest expense was \$5.8 million for the fourth quarter of 2016 compared to \$4.2 million for the fourth 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 \$581 thousand compared to the fourth quarter of 2015. During the fourth quarter of 2016, we sold \$350 thousand of other real estate owned (OREO) properties recognizing gains of \$178 thousand, and we recognized impairment in the amount of \$164 thousand on OREO properties resulting in a net gain of \$14 thousand. This compared to a loss on OREO of \$63 thousand for the fourth quarter of 2015.

The efficiency ratio increased to 74.30% during the quarter ended December 31, 2016 from 63.61% during the fourth quarter of 2015.

Loan Portfolio

Net loan growth in the fourth quarter of 2016 was \$48.6 million.

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

	December 31, 2016	December 31, 2015
	(Dollars in thousands)	
Loans secured by real estate:		
Commercial, financial and agricultural	\$ 130,577	\$ 100,485
Real estate - construction, land development and other land loans	38,372	47,714
Real estate - mortgage	214,679	182,284
Installment loans to individuals	35,164	38,867
Loans, gross	418,792	369,350
Allowance for possible loan losses	(5,158)	(4,315)
Loans, net	\$ 413,634	\$ 365,035

Loan Loss Provision/Asset Quality

The loan loss provision for the quarter ended December 31, 2016 was \$1.4 million, compared to \$710 thousand for the same period last year. Net charge offs for the three months ended December 31, 2016 were \$608 thousand, compared to \$578 thousand for the same period in 2015.

OREO as of December 31, 2016 was \$4.9 million compared to \$5.3 million as of the end of the previous year. Nonaccrual loans were \$2.9 million at December 31, 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 December 31, 2016 was 1.23%, 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 \$25.5 million at December 31, 2016 up from \$14.9 million at December 31, 2015.

Securities in our investment portfolio as of December 31, 2016 were as follows:

- callable agency securities in the amount of \$6.9 million
- residential government-sponsored mortgage-backed securities in the amount of \$11.9 million
- taxable municipal bonds in the amount of \$1.0 million
- nontaxable municipal bonds in the amount of \$5.7 million

During the fourth quarter of 2016, we purchased \$1.0 million of callable agency securities and \$3.1 million of residential government-sponsored mortgage-backed securities. Two callable agency securities

in the amount of \$4.0 million were called and 19 residential government-sponsored mortgage-backed securities in the amount of \$1.9 million were sold.

Deposits

Total deposits were \$430.3 million at December 31, 2016 compared to \$350.3 million at December 31, 2015. Interest-bearing accounts were \$360.4 million at December 31, 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 \$50.7 million at December 31, 2016, the increase of which resulted from the completion of the sale of \$12 million in common stock through a private placement along with the retention of earnings, all of which was partially offset by the redemption of all remaining Series T-3 preferred stock. Our Tier 1 Risk Based Capital Ratios were 13.75% and 13.90% for GrandSouth Bancorporation and GrandSouth Bank, respectively, as of December 31, 2016.

GrandSouth Bancorporation is a bank holding company with assets of \$515.5 million at December 31, 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)

	December 31, 2016	December 31, 2015
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 34,923	\$ 11,695
Interest bearing transaction accounts with other banks	3,086	456
Federal funds sold	5,309	3,701
Cash and cash equivalents	43,318	15,852
Certificates of deposit with other banks	2,500	2,000
Securities available-for-sale	25,543	14,885
Other investments, at cost	1,319	1,276
Loans, gross	418,792	369,350
Allowance for loan losses	(5,158)	(4,315)
Loans, net of allowance for loan losses	413,634	365,035
Premises and equipment, net	10,211	8,814
Bank owned life insurance	6,390	6,226
Assets acquired in settlement of loans	4,902	5,275
Interest receivable	3,755	3,133
Deferred income taxes	1,530	1,274
Goodwill	737	737
Other assets	1,676	1,983
Total assets	<u>\$ 515,515</u>	<u>\$ 426,490</u>
Liabilities and shareholders' equity		
Deposits		
Noninterest bearing	\$ 69,878	\$ 45,515
Interest bearing	360,449	304,746
Total deposits	430,327	350,261
Federal Home Loan Bank advances	22,000	22,000
Junior subordinated debentures	8,247	8,247
Interest payable	111	98
Other liabilities	4,140	3,138
Total liabilities	464,825	383,744
Shareholders' equity	50,690	42,746
Total liabilities and shareholders' equity	<u>\$ 515,515</u>	<u>\$ 426,490</u>

Condensed Consolidated Statements of Income
(Unaudited)

	For the three months ended December 31,		For the twelve months ended December 31,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Interest income	\$ 8,150	\$ 6,992	\$ 29,943	\$ 26,923
Interest expense	<u>744</u>	<u>543</u>	<u>2,521</u>	<u>2,032</u>
Net interest income	7,406	6,449	27,422	24,891
Provision for loan losses	<u>1,354</u>	<u>710</u>	<u>3,269</u>	<u>1,100</u>
Net interest income after provision for loan losses	6,052	5,739	24,153	23,791
Noninterest income				
Service charges on deposit accounts	128	70	441	283
Gain on sale of securities	114	0	120	23
Net gain on sale of premises and equipment	(14)	15	11	103
Increase in value of life insurance assets	41	35	164	130
Other	<u>103</u>	<u>41</u>	<u>272</u>	<u>148</u>
Total noninterest income	372	161	1,008	687
Noninterest expense				
Salaries and employee benefits	3,323	2,742	12,905	9,855
Premises and equipment	445	259	1,441	966
Loss on sale and impairment of assets acquired in settlement of loans	(14)	63	(325)	228
Data processing	279	199	1,014	726
Other expenses	<u>1,746</u>	<u>941</u>	<u>5,066</u>	<u>3,386</u>
Total noninterest expense	<u>5,779</u>	<u>4,204</u>	<u>20,101</u>	<u>15,161</u>
Income before income taxes	645	1,696	5,060	9,317
Income tax provision	<u>259</u>	<u>496</u>	<u>1,875</u>	<u>3,306</u>
Net income	386	1,200	3,185	6,011
Deductions for amounts not available to common shareholders:				
Dividends declared or accumulated on preferred stock	<u>(30)</u>	<u>(34)</u>	<u>(151)</u>	<u>(146)</u>
Net income available to common shareholders	<u>\$ 356</u>	<u>\$ 1,166</u>	<u>\$ 3,034</u>	<u>\$ 5,865</u>

Financial Highlights
(Unaudited)

	For the three months ended December 31,		For the twelve months ended December 31,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Per share data:				
Earnings per share, basic	\$ 0.08	\$ 0.34	\$ 0.68	\$ 1.73
Earnings per share, diluted	\$ 0.08	\$ 0.32	\$ 0.67	\$ 1.66
Book value per share	\$ 11.02	\$ 10.66	\$ 11.02	\$ 10.66
Tangible book value per share	\$ 10.85	\$ 10.45	\$ 10.85	\$ 10.45
Weighted average shares				
outstanding, basic	4,494,129	3,496,592	4,434,979	3,391,019
Weighted average shares				
outstanding, diluted	4,588,865	3,633,483	4,535,682	3,534,880
Shares outstanding at end of period	4,483,990	3,522,645	4,483,990	3,522,645

Selected performance ratios and other data:

Return on average assets	0.31%	1.12%	0.69%	1.48%
Return on average equity	3.00%	11.25%	6.22%	14.09%
Yield on average earning assets	6.29%	6.40%	6.30%	6.51%
Cost of funds	0.80%	0.64%	0.72%	0.63%
Net interest margin	6.41%	6.42%	6.38%	6.57%
Efficiency ratio	74.30%	63.61%	70.70%	59.27%
Charge-offs, net to average loans	0.60%	0.64%	0.65%	0.47%

	As of	
	December 31, 2016	December 31, 2015
	(Dollars in thousands)	
Shareholders' equity to total assets	9.83%	10.03%
Tier 1 risk-based capital ratio	13.90%	13.61%
Intangible assets		
Goodwill	\$ 737	\$ 737
Other real estate owned	\$ 4,902	\$ 5,275
Nonaccrual loans	2,935	1,685
Loans past due 90 days and accruing interest (a)	82	142
Total nonperforming assets	7,919	7,102
Allowance for loan losses to loans, gross	1.23%	1.17%

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