



November 5, 2019

Dear Shareholder,

We are pleased to provide you with our third quarter 2019 results along with an update on our activities. The past eighteen months have been eventful for the company and I believe we are well positioned for future expansion and success. A summary of the third quarter highlights are noted below.

**Business Combination**

The previously announced merger of equals closed effective September 1, 2019 and the formation of Heritage Southeast Bancorporation, Inc., its wholly owned bank Heritage Southeast Bank which includes three distinct divisions (Heritage Bank – Jonesboro, The Heritage Bank – Hinesville and Providence Bank – Alpharetta) is complete and fully operational. Under the guidance of our senior team, the entire employee base is working towards the crisp execution of aligning the support areas of the company while retaining the three divisions unique delivery of service and support to the communities they serve. The most impactful initiative for 2020 will be combining the three operating platforms. We have tentatively scheduled these conversions for the second and third quarters 2020 and once complete will provide a more efficient operating model.

**Financials**

The attached financial information only includes the results of the acquired institutions (Heritage Bancorporation, Inc. – Hinesville and Providence Bank – Alpharetta) from the September 1, 2019 acquisition date. Overall the September results were in line with our expectations. The company finished the quarter with approximately \$1.3 billion in assets, \$918 million in loans, \$1.1 billion in deposits and \$101 million in tangible common equity. The income statement only includes the acquired institutions for one month and incorporates merger related charges for the surviving company. As such, the year-to-date statement is not reflective of the combined institutions earnings potential. This activity will be captured in our fourth quarter release. Asset quality metrics were as anticipated at closing and well within regulatory guidelines. The remaining problem assets are appropriately marked with specific exit plans in place on most items. Timelines will vary on these exits but we anticipate the assets to be resolved in a timely fashion. Capital levels were also as expected and within internal targeted thresholds. The company is currently evaluating capital enhancement options based on anticipated earnings, growth rates and other factors.

**Other**

Under this caption I would like to address two items. The first item relates to our expansion opportunities. Although we believe there is tremendous potential within our current footprint to expand customer relationships, the recruiting and investing in high performing talent is always a priority. Our team continually evaluates proposals and makes decisions based on complimentary product lines and more importantly, cultural fit within the existing organization. The majority of these decisions will be driven based on the quality of people involved. This strategy was evidenced by our planned entry into the Peachtree City and Carrollton markets. Secondly, we have identified DA Davidson Companies to provide market making services as needed. DA Davidson Companies has assigned Michael Acampora to assist our shareholders with any stock inquiries and transactions. Mr. Acampora has over 30 years of community bank experience and his contact information is as follows:

Michael Acampora, Senior Vice President  
DA Davidson Companies  
Community Bank & Wealth Management Group  
1654 N Pearl Street  
Jacksonville, Florida 32206  
Phone: 904-456-6153  
Email: [macampora@dadco.com](mailto:macampora@dadco.com)

In closing, the entire Heritage Southeast Bancorporation, Inc. team understands the vast opportunities that stand before us and are committed to the long-term success of the company. On behalf of the entire Heritage family I want to thank you for your on-going support of our company as we remain dedicated to our customers, the communities we serve and creating long term value to our shareholders. We wish you all the very best for the holidays and look forward to the next update which will be for the full year 2019.

Sincerely,

A handwritten signature in black ink, appearing to read 'LAM', with a large, stylized loop at the end.

Leonard A. Moreland  
Chief Executive Officer

**Heritage Southeast Bancorporation, Inc.**  
**Consolidated Balance Sheets**  
(in thousands)

	09/30/19 (Unaudited)	12/31/18
<b>Assets</b>		
Cash and due from banks	\$ 26,633	\$ 4,668
Interest-earning deposits with banks	113,293	22,166
Investment securities:		
Available-for-sale	104,265	42,954
Held to maturity	-	4,963
Other investments	1,632	1,370
Loans, net of unearned income:		
Originated	469,700	408,294
Acquired	448,570	-
Less reserve for loan losses	5,523	5,136
Loans, net	<u>912,747</u>	<u>403,158</u>
Premises and equipment, net	34,005	13,982
Other real estate owned	11,838	2,923
Goodwill and other intangibles	32,809	-
Other assets	48,934	15,799
	<u>\$ 1,286,156</u>	<u>\$ 511,983</u>
<b>Liabilities and shareholders' equity</b>		
Deposits:		
Non-interest bearing	\$ 304,342	\$ 111,609
NOW	189,500	67,878
Money market and savings	284,047	119,140
Time	328,830	127,752
Total deposits	<u>1,106,719</u>	<u>426,379</u>
FHLB borrowings	5,667	22,167
Repurchase agreements	11,418	12,815
Junior subordinated debentures	9,045	-
Other borrowings	9,088	3,446
Other liabilities	10,746	3,785
Total liabilities	<u>1,152,683</u>	<u>468,592</u>
Shareholders' equity:		
Common stock	702	216
Additional paid-in capital	116,089	24,912
Retained earnings	16,914	18,666
Other comprehensive loss	(232)	(403)
Total shareholders' equity	<u>133,473</u>	<u>43,391</u>
	<u>\$ 1,286,156</u>	<u>\$ 511,983</u>

**Heritage Southeast Bancorporation, Inc.**  
**Consolidated Income Statements**  
(in thousands)

	(Unaudited)	
	For nine months ended	
	09/30/19	09/30/18
<b>Interest income:</b>		
Loans	\$ 20,594	\$ 14,651
Loan fees	1,200	1,036
Deposits with other banks	589	369
Other	50	36
Investment securities	862	543
Total interest income	23,295	16,635
<b>Interest expense:</b>		
NOW	150	51
Money market	548	277
Savings	43	10
Time	2,491	1,028
	3,232	1,366
Junior subordinated debentures	32	-
Other borrowings	527	426
Total interest expense	3,791	1,792
Net interest income	19,504	14,843
<b>Provision for loan losses</b>	685	555
Net interest income after provision for loan losses	18,819	14,288
<b>Noninterest income:</b>		
Service charges on deposits	1,480	1,018
(Loss) gain on sale of investment securities	(229)	187
Gain on sale of loans	223	255
Interchange and ATM fees	890	447
Other	567	463
Total noninterest income	2,931	2,370
<b>Noninterest expense:</b>		
Salaries & employee benefits	9,845	7,257
Occupancy & equipment	1,791	1,364
Merger costs	7,265	212
Other real estate owned	602	223
Other	4,398	3,566
Total noninterest expense	23,901	12,622
(Loss) income before taxes	(2,151)	4,036
<b>Income tax (benefit) provision</b>	(399)	916
Net (loss) income	\$ (1,752)	\$ 3,120

## Heritage Southeast Bancorporation, Inc.

### Other Highlights

(dollars in thousands, except for per share data)

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	(Unaudited)	
	<b>For nine months ended</b>	
	<b>09/30/19</b>	<b>09/30/18</b>
<b>Profitability (YTD)</b>		
Net (loss) income	\$ (1,752)	\$ 3,120
Net income excluding merger costs <b>(1)</b>	4,036	3,277
Net interest margin	4.48%	4.36%
Cost of funds	0.89%	0.55%
Return on average assets <b>(1)</b>	0.86%	0.90%
Return on average equity <b>(1)</b>	9.79%	10.86%
	<b>Balance as of</b>	
	<b>09/30/19</b>	<b>12/31/18</b>
<b>Asset Quality</b>		
Classified assets	\$ 19,188	\$ 5,374
Nonperforming assets (NPAs)	15,636	4,651
NPAs to total assets	1.22%	0.91%
Net charge-offs to average loans	0.08%	0.00%
<b>Capital (2)</b>		
Leverage ratio <b>(3)</b>	8.50%	9.14%
Common equity tier 1 risk based ratio	10.21%	10.46%
Total risk based ratio	10.74%	11.61%
<b>Tangible book value per common share</b>	\$ 14.12	\$ 15.26

(1) Excludes merger related costs net of a tax benefit of \$1,477,000 and \$55,000 for 2019 and 2018, respectively.

(2) Ratios for Heritage Southeast Bank.

(3) 2019 calculation was modified to assume assets were acquired on July 1, 2019.