Dear Shareholders,

Thus far, 2019 has produced a challenging set of market conditions for Three Shores and Seaside. An inverted yield curve presents its own set of issues when an industry such as ours borrows short and lends and invests long. Our commercial and industrial lending (C&I) strategy is more akin to borrowing short and lending short. C&I loans comprise half of our entire portfolio, and the average duration or maturity of that portfolio is around 13 months. This is a much shorter duration than most community banks experience, as others tend to make mostly real estate-related loans. Longer duration, fixed-rate loans can look good going on and tend to be less likely to be refinanced in rising rate or flat environments, but these loans present their own set of risks that can differ from C&I loans.

We have the privilege to conduct business with very sound and established businesses that are performing well in this economy. As a result, we are experiencing many clients who are producing excess cash flow and who can use that excess cash to pay down their operating lines or otherwise deleverage while they have the capacity to do so easily. This hits us on both sides of the balance sheet (using deposits to retire loans) and as a result, our aggregate line usage is at an all-time low. We have in excess of a billion dollars of committed lines to clients that are currently less than 43 percent drawn. We have also experienced a number of our larger credits being taken out by non-bank competitors such as bond funds and private equity funds who are seeking higher yields than they can otherwise find in the corporate, municipal or U.S. Treasury public markets. In doing so, they offer looser loan structures and recourse-free debt. These funds have stepped up their efforts heading down market into the private direct lending space to provide their investors better yields, but it remains to be seen how these higher leverage loans will perform for them into the next economic cycle.

Aside from the above, as explained earlier in our communication to you, we embarked at the beginning of the year to reduce the level of shared national credits in our portfolio. This runoff of what is considered wholesale credit has further reduced loan balances by approximately $44 million over the past six months. As a result, we have reduced our reliance on wholesale funding by a similar amount as we reposition our balance sheet. The reduction of these assets and liabilities has temporarily slowed our balance sheet growth, but it will place us in a position to resume growth in a more diversified manner with less concentration risk as we weigh where we are in the current economic cycle.

With this strategy in place, total assets ended June 30, 2019 at $1.85 billion, which was lower than year-end 2018 at $1.89 billion, but 1.5 percent higher than the second quarter of 2018 figure of $1.82 billion. Similarly, total deposits ended the second quarter of 2019 at $1.52 billion, down from year-end 2018, but up 3.6 percent from one year ago.

Off balance sheet, our asset management business continues to grow as well as funds we place in repurchase agreements for our clients that are not reflected in our reported deposits. These produce fees that are booked in the non-interest income line item. As of June 30, 2019, total assets under management were $703.3 million, which were 4.8 percent higher than the one year ago comparison.

With respect to earnings, on a consolidated after-tax basis, Three Shores earned $4.6 million for the second quarter compared to $4.37 million the year before, or a 5.1 percent improvement. There is some noise in the earnings figure due to a GAAP requirement that we true-up loan reserves based upon our reserve methodology. We have been very conservative with our qualitative factors and in placing any contingent reserves on the few problem credits we monitor. Despite all of that, we had excess reserves due to the loan balance reduction that must be managed. Accordingly, we took a $532,000 credit at quarter end to comply with GAAP. Our allowance for loan losses to total loans improved from .99 to 1.06 year over year after this adjustment. Also, our Texas Ratio improved from 2.14 percent as of quarter end one year ago to 1.09 percent as of quarter-end 2019. Total nonperforming assets to total assets was 10 basis points as of June 30, 2019.

The recent decline in long-term interest rates has generally helped boost the value of bank securities portfolios, and as a result, has benefitted tangible book value per share. TSB has benefitted from this factor as well as through retained earnings to improve our Tangible Book Value to $6.31 per share as of June 30, 2019, which is a year-over-year improvement of 17 percent from $5.39 at the end of the second quarter of 2018.

Our company continues to produce positive operating leverage; expenses are controlled as evidenced by a solid efficiency ratio; our insurance and asset management business are both ahead of our operating plan; and our asset quality is excellent. Our capital ratios are improving with better than 12 percent return on equity, and we are growing tangibl- book value per share at attractive double-digit rates. Our biggest challenge at the moment is centered upon rebuilding our loan balances and hopefully getting some level of relief on deposit costs as rates come down at the short end of the yield curve.

We continue to attract some very high caliber talent, as we have made a number of recent hires around the state this year. We believe we have opportunity with the pending BBT/SunTrust merger, which will cause disruption in a number of our key markets, so we are developing strategies to create advantage for ourselves. What we must do at this time is to focus on that which is within our control and work tirelessly to deliver our full value proposition to our clients and prospects. We are frustrated by the unanticipated deleveraging described earlier, but we are optimistic that our monthly region loan production is up 28 percent over last year. Our professionals are working hard knowing that earnings will be a challenge for the balance of the year given our temporary balance sheet reduction, but they understand that this is transitory and will cure over time.

I hope this letter finds you and your loved ones in good health and spirits.

Kind regards,

Gideon T. Haymaker
Founder & Chief Executive Officer

# Three Shores Bancorporation, Inc.
# Selected Consolidated Financial Data
# Second Quarter 2019

*At June 30, 2019 & 2018, March 31, 2019 and December 31, 2018 and*
*for the quarter and year-to-date periods ended June 30, 2019 & 2018*
*($ in thousands, except per share figures)*

| **Balance Sheet-At Period End:** | **At June 30, 2019** | **At March 31, 2019** | **At Dec 31, 2018** | **At June 30, 2018** |
|---|---|---|---|---|
| Cash and cash equivalents | $69,900 | $67,980 | $44,456 | $53,195 |
| Securities | $441,396 | $424,196 | $418,638 | $395,843 |
| Loans, net of Allowance | $1,278,350 | $1,339,594 | $1,382,739 | $1,334,386 |
| All other assets | $60,054 | $60,808 | $36,856 | $38,109 |
| Total assets | $1,849,700 | $1,892,578 | $1,882,689 | $1,821,533 |
| Deposit accounts | $1,515,567 | $1,555,871 | $1,552,630 | $1,462,626 |
| Borrowings | $141,524 | $154,368 | $170,280 | $213,588 |
| All other liabilities | $35,546 | $33,642 | $14,690 | $11,412 |
| Stockholders' equity | $157,063 | $148,697 | $145,089 | $133,907 |
| Total liabilities and equity | $1,849,700 | $1,892,578 | $1,882,689 | $1,821,533 |
| Assets Under Management | $703,274 | $690,677 | $661,417 | $671,322 |
| **Balance Sheet Ratios and Other Data:** | | | | |
| Tier 1 Leverage Ratio-Seaside | 8.25% | 7.86% | 7.86% | 7.88% |
| Tier 1 Leverage Ratio-Three Shores | 8.02% | 7.65% | 7.64% | 7.67% |
| Total Risk-Based Capital ratio-Seaside | 12.13% | 11.51% | 11.26% | 11.05% |
| Total Risk-Based Capital ratio-Three Shores | 11.85% | 11.25% | 11.00% | 10.80% |
| Texas Ratio* (NPA's/ALLR + Equity) | 1.09% | 1.15% | 0.67% | 2.14% |
| Nonperforming Assets*/Total Assets | 0.10% | 0.10% | 0.06% | 0.17% |
| Allowance for loan losses to Total Loans | 1.06% | 1.04% | 1.00% | 0.99% |
| Total number of banking offices | 14 | 14 | 14 | 14 |
| Total shares outstanding (common & preferred) | 24,287,726 | 24,265,700 | 24,008,872 | 24,010,996 |
| Tangible book value per share (excludes intangible assets) | $6.31 | $5.96 | $5.87 | $5.39 |

** excludes government-backed NPA's*

| **Income Statement-For the Period:** | **2nd Qtr 2019** | **2nd Qtr 2018** | **Year-to-date 2019** | **Year-to-date 2018** |
|---|---|---|---|---|
| Total interest income | $19,848 | $17,891 | $40,066 | $34,801 |
| Total interest expense | $7,530 | $4,916 | $14,908 | $9,031 |
| Net interest income | $12,318 | $12,975 | $25,158 | $25,770 |
| Provision (credit) for loan losses | ($532) | $670 | $4,535 | $670 |
| Net interest income after provision | $12,850 | $12,305 | $20,623 | $25,100 |
| Noninterest income | $2,441 | $2,449 | $4,601 | $4,512 |
| Noninterest expenses | $8,931 | $8,663 | $18,333 | $17,881 |
| Earnings before income taxes | $6,360 | $6,091 | $6,891 | $11,731 |
| Income taxes | $1,590 | $1,546 | $1,522 | $3,166 |
| Net earnings - Seaside | $4,770 | $4,545 | $5,369 | $8,565 |
| Three Shores net operating expense | $173 | $172 | $369 | $364 |
| Net earnings - Consolidated | $4,597 | $4,373 | $5,000 | $8,201 |
| **Income Statement Ratios and Other Data:** | | | | |
| Return on average assets (1) | 0.98% | 1.00% | 0.53% | 0.95% |
| Return on average equity (1) | 12.03% | 13.28% | 6.62% | 12.51% |
| Basic Earnings Per Share | $0.19 | $0.18 | $0.21 | $0.34 |
| Yield on Interest-earning assets | 4.36% | 4.17% | 4.37% | 4.09% |
| Cost of Funds | 1.80% | 1.24% | 1.77% | 1.16% |
| Net Interest Margin (1) | 2.69% | 3.00% | 2.73% | 3.01% |
| Noninterest expenses to average assets (1) | 1.93% | 2.02% | 1.98% | 2.11% |
| Efficiency Ratio | 61.89% | 56.89% | 63.07% | 60.46% |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 1.28 | 1.32 | 1.28 | 1.31 |

(1) Annualized