

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

| | | | |
|--|-----------------------------------|---|-----------------------------|
| 1 Issuer's name | | 2 Issuer's employer identification number (EIN) | |
| COASTALSOUTH BANCSHARES, INC. AS SUCCESSOR TO CORNERSTONE BANCSHARES, INC. | | 57-1184730 | |
| 3 Name of contact for additional information | 4 Telephone No. of contact | 5 Email address of contact | |
| TONY VALDUGA | (843) 341-9941 | TVALDUGA@COASTALSTATESBANK.COM | |
| 6 Number and street (or P.O. box if mail is not delivered to street address) of contact | | 7 City, town, or post office, state, and ZIP code of contact | |
| P.O. BOX 4800 | | HILTON HEAD ISLAND, SC 29938 | |
| 8 Date of action | | 9 Classification and description | |
| OCTOBER 1, 2021 | | COMMON STOCK | |
| 10 CUSIP number | 11 Serial number(s) | 12 Ticker symbol | 13 Account number(s) |
| N/A | N/A | COSO | N/A |

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ SEE ATTACHED STATEMENT

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ SEE ATTACHED STATEMENT

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ SEE ATTACHED STATEMENT

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶

IRC SECTION 354

IRC SECTION 356

IRC SECTION 358

IRC SECTION 368 (a)

IRC SECTION 1001

TREASURY REGULATION SECTION 1.356-1

TREASURY REGULATION SECTION 1.358.2

18 Can any resulting loss be recognized? ▶ SEE ATTACHED STATEMENT

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ THE REPORTABLE TAX YEAR IS THE TAX YEAR INCLUDING OCTOBER 1, 2021.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ▶ *Lauren Hemby*

Date ▶ 11/2/21

Print your name ▶ Lauren Hemby

Title ▶ CAO

Paid Preparer Use Only

| | | | | |
|----------------------------|--|-----------|---|------------------------|
| Print/Type preparer's name | Preparer's signature | Date | Check <input type="checkbox"/> if self-employed | PTIN |
| ROBERT A. PARKER, CPA | <i>R.A.P.</i> | 11/2/2021 | | P00868782 |
| Firm's name ▶ CROWE LLP | Firm's address ▶ 720 COOL SPRINGS BLVD, STE 600 FRANKLIN, TN 37067 | | Firm's EIN ▶ 35-0921680 | Phone no. 615-360-5500 |

Attachment to Form 8937
Report of Organizational Actions Affecting Basis of Securities
CoastalSouth Bancshares, Inc.
FEIN: 57-1184730

Part II, Line 14

CoastalSouth Bancshares, Inc. ("COSO") acquired Cornerstone Bancshares, Inc. ("Cornerstone") through a merger transaction. Cornerstone simultaneously merged with and into COSO effective October 1, 2021 ("Merger Effective Time"). The transaction qualified as a reorganization within the meaning of IRC 368(a).

Pursuant to the terms of the merger, in exchange for each share of Cornerstone stock, each Cornerstone shareholder could elect to receive either a) \$0.85219 cash or b) 0.047168 shares of COSO common stock and \$0.07392 cash.

Cornerstone shareholders received cash in lieu of fractional shares of COSO common stock based on a per share price of \$16.50.

Part II, Line 15

- Cornerstone shareholders receiving solely cash will experience no effect on basis of their Cornerstone common stock.
 - These holders should recognize gain or loss equal to the difference between the cash received and the tax basis in their Cornerstone shares surrendered.
- Cornerstone shareholders receiving COSO stock and cash will experience the following effects:

The basis of COSO shares received in the merger will be generally determined in accordance with IRC Section 358(a), as follows:

- The basis of Cornerstone shares surrendered
- Reduced by the cash received in the merger (if any)
- Increased by any gain recognized in the exchange, computed on a per share basis

The following information is necessary to compute gain to be recognized in the exchange on a per share basis as to each share of Cornerstone common stock that was held by a holder of record as of the Merger Effective Time:

- Cash consideration received per Cornerstone common share: \$0.07392 per share
- Fair market value of COSO shares received per Cornerstone common share: $\$16.50 \times 0.047168$ shares = \$0.77827 per share
- Total consideration received per Cornerstone common share: $\$0.07392 + \$0.77827 = \$0.85219$ per share

To determine the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of the old basis, the following scenarios should be used to determine the per share gain to be recognized by a holder of record of a share of Cornerstone common stock as of the Merger Effective Time. Cornerstone shareholders should note that cash payments in lieu of fractional shares are expressly not considered in the scenarios described below:

- If the adjusted basis in an individual share of Cornerstone stock is greater than or equal to \$0.85219, recognized gain should be \$0.
- If the adjusted basis in an individual share of Cornerstone stock is greater than \$0.77827 but less than \$0.85219, recognized gain should equal the excess of \$0.85219 over the Cornerstone stock basis.
- If the adjusted basis in an individual share of Cornerstone stock is less than or equal to \$0.77827, recognized gain should equal \$0.07392.

Part II, Line 16

The fair market value of COSO common stock at the effective time of the merger was \$16.50 per share.

The basis of COSO shares received, once computed as per above, must be allocated to the individual COSO shares received in accordance with Treasury Regulation §1.358-2(a). Since fewer shares of COSO common stock were received than shares of Cornerstone common stock surrendered, the basis of the Cornerstone shares surrendered must be allocated to the shares of COSO stock received in a manner that reflects, to the greatest extent possible, that a share of COSO stock received is received in respect of Cornerstone shares of stock that were acquired on the same date and at the same price. To the extent it is not possible to allocate basis in this manner, the basis of the Cornerstone shares surrendered must be allocated to the shares of COSO stock received in a manner that minimizes the disparity in the holding periods of the surrendered shares whose basis is allocated to any particular COSO share received. This could result in a single share of COSO stock having a split basis and a split holding period. See Example (14) of Treasury Regulation §1.358-2(c) for an illustration of this principle.

Part II, Line 18

No loss may be recognized by a Cornerstone shareholder receiving a combination of COSO common stock and cash, except that any loss on the receipt of cash in lieu of fractional shares of COSO stock may be recognized.

Cornerstone shareholders who receive only cash may recognize loss, if any. The deductibility of capital losses is subject to limitation.