South Atlantic Bancshares, Inc. Reports Earnings of $0.29 per Diluted Common Share For the Three Months Ended September 30, 2023

MYRTLE BEACH, S.C., October 26, 2023 /PRNewswire/ -- South Atlantic Bancshares, Inc. ("South Atlantic" or the "Company") (OTCQX: SABK), parent of South Atlantic Bank (the "Bank"), reported consolidated net income of $2.2 million, or $0.29 per diluted common share, for the three months ended September 30, 2023.

Third Quarter and Year-to-Date 2023 Financial Highlights:

- **Net income totaled $7.8 million for the nine months ended September 30, 2023, a 3.4 percent decrease from the same nine-month period in 2022**
- **Total deposits grew $25.3 million for the quarter to $1.3 billion, and have increased $86.6 million year-to-date, an annualized increase of 9.5 percent**
- **Interest income on loans and investments increased $5.0 million, or 37.6 percent, compared to the third quarter of 2022**
- **Pre-provision net interest income increased 0.4 percent during the third quarter of 2023, compared to a 7.4 percent decrease in the second quarter of 2023**
- **Total assets increased $25.9 million during the third quarter of 2023 to $1.6 billion, a 13.0 percent increase year-over-year**
- **Total loans increased $40.9 million during the third quarter of 2023, a 14.9 percent annualized increase since December 31, 2022**
- **Year-to-date tangible book value per share has increased by $0.58 or 5.2 percent**

Commenting on the third quarter 2023 results, the Company's Chairman and Chief Executive Officer, K. Wayne Wicker, stated, "The third quarter of 2023 was another successful quarter for our Company. While the economic outlook remains uncertain and we continue to navigate the challenging environment, we continue to be pleased with the performance of our markets. During the third quarter of 2023, our deposits grew by 7.91 percent annualized. This allowed us to fund strong loan demand which has provided a boost to overall earning assets yields. While our net interest margin contracted modestly from the second quarter of 2023, the rate of our margin compression slowed substantially from prior quarters. Net interest income expanded during the third quarter of 2023, which was a favorable development after a 7.4 percent decrease in the second quarter of 2023. Our credit quality and risk indicators remain excellent. We expect our credit performance to remain strong, but are diligent in monitoring loan portfolios for potential weaknesses given the uncertain forecasted economic conditions due to the continued rising interest rate environment and persistent inflation in the U.S. As we look ahead to the end of 2023 and beyond, we are focused on achieving balanced growth of both loans and deposits and identifying opportunities for expense reductions through operating efficiencies".

Selected Financial Highlights
For the Periods/Three Months Ended

Balance Sheet (000's)	September 30, 2023	June 30, 2023	Change ($)	Change (%)[1]
Total Assets	$ 1,551,272	$ 1,525,413	$ 25,859	6.8%
Total Loans, Net of Unearned Income	1,136,231	1,095,316	40,915	14.9%
Total Deposits	1,303,321	1,278,043	25,278	7.9%
Total Equity	94,926	96,586	(1,660)	-6.9%

Income Statement and Per Share Data	September 30, 2023	June 30, 2023	Change ($)	Change (%)
Net Income (000's)	$ 2,189	$ 2,513	$ (324)	-12.9%
Earnings Per Share	0.29	0.33	(0.04)	-12.1%

Selected Financial Ratios	September 30, 2023	June 30, 2023
Return on Average Assets	0.56%	0.67%
NPAs to Average Assets	0.01%	0.00%
Efficiency Ratio	75.32%	70.84%
Net Interest Margin	2.83%	2.92%

[1] Results annualized.

Earnings Summary

Net interest income decreased $1.9 million, or 15.7 percent, to $10.4 million in the three months ended September 30, 2023, when compared to $12.3 million in the three months ended September 30, 2022. The Company experienced an increase in interest income of $5.0 million, or 37.6 percent during the third quarter of 2023 compared to the third quarter of 2022, which was offset by a $6.9 million increase in interest expense due to the continued rise in market interest rates for deposits across the Bank's market areas and increased competition from bank and non-bank alternatives, as well as the migration of a portion of the Company's deposit balances from noninterest and low interest bearing deposits to higher cost savings, money market, and time deposits during the period. The increase in interest income during the third quarter of 2023 was driven by a $4.6 million increase in interest income on the Company's loan portfolio due to increased yields and volume, as well as an increase of $366 thousand from the Company's investment securities portfolio.

Noninterest income declined $32.0 thousand, or 2.7 percent, to $1.2 million for the three months ended September 30, 2023 when compared to the three months ended September 30, 2022, primarily due to a market driven reduction in secondary mortgage fee income of $166.0 thousand, partially offset by an increase in service charges and other noninterest income of $63.0 thousand during the period.

Noninterest expense increased $178.0 thousand, or 2.1 percent, to $8.8 million for the three months ended September 30, 2023, when compared to $8.6 million for the three months ended September 30, 2022, primarily driven by an increase of lease and maintenance expense of $149.4 thousand.

Financial Performance

Dollars in Thousands Except Per Share Data

	Three Months Ended					Nine Months Ended
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023
Interest Income						
Loans	$ 15,186	$ 14,122	$ 13,015	$ 11,727	$ 10,589	$ 42,323
Investments	2,964	2,648	2,383	2,583	2,598	7,995
Total Interest Income	**$ 18,150**	**$ 16,770**	**$ 15,398**	**$ 14,310**	**$ 13,187**	**$ 50,318**
Interest Expense	7,776	6,440	4,241	1,793	877	18,457
Net Interest Income	**$ 10,374**	**$ 10,330**	**$ 11,157**	**$ 12,517**	**$ 12,310**	**$ 31,861**
Provision for Loan Losses	-	180	175	900	650	355
Noninterest Income	1,166	1,481	1,126	1,084	1,198	3,773
Noninterest Expense	8,772	8,442	8,322	7,518	8,594	25,536
Income Before Taxes	**$ 2,768**	**$ 3,189**	**$ 3,786**	**$ 5,183**	**$ 4,264**	**$ 9,743**
Provision for Income Taxes	579	676	662	1,232	675	1,918
Net Income	**$ 2,189**	**$ 2,513**	**$ 3,124**	**$ 3,951**	**$ 3,589**	**$ 7,825**
Basic Earnings Per Share	**$ 0.29**	**$ 0.33**	**$ 0.41**	**$ 0.52**	**$ 0.47**	**$ 1.03**
Diluted Earnings Per Share	**$ 0.29**	**$ 0.33**	**$ 0.41**	**$ 0.52**	**$ 0.47**	**$ 1.03**
Weighed Average Shares Outstanding						
Basic	7,546,086	7,545,922	7,546,566	7,561,993	7,588,505	7,546,190
Diluted	7,589,725	7,606,002	7,632,316	7,651,288	7,701,507	7,610,152
Total Shares Outstanding	7,605,854	7,596,779	7,596,779	7,596,198	7,592,520	7,605,854

Noninterest Income/Expense

Dollars in Thousands

	Three Months Ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Noninterest Income					
Service charges and fees	$ 142	$ 389	$ 128	$ 126	$ 138
Securities gains, net	-	-	3	-	(71)
Secondary mortgage income	137	225	196	157	303
Other income	887	867	799	801	828
Total noninterest income	**$ 1,166**	**$ 1,481**	**$ 1,126**	**$ 1,084**	**$ 1,198**
Noninterest expense					
Salaries and employee benefits	$ 5,272	$ 5,118	$ 5,036	$ 4,344	$ 5,257
Occupancy	1,223	1,090	1,114	1,086	1,074
Other expense	2,277	2,234	2,172	2,088	2,263
Total noninterest expense	**$ 8,772**	**$ 8,442**	**$ 8,322**	**$ 7,518**	**$ 8,594**

Balance Sheet Activity

Total assets increased $141.7 million to $1.55 billion as of September 30, 2023, compared to $1.41 billion as of December 31, 2022 and $1.37 billion as of September 30, 2022, an increase of 9.9 percent and 13.1 percent, respectively. The increase in total assets during the nine months ended September 30, 2023 was driven primarily by an increase in net loans of $133.2 million and an increase in cash and cash equivalents of $8.4 million, partially offset by a reduction in investment securities of $11.2 million. Total loans increased 13.3 percent during the nine months ended September 30, 2023, compared to 29.2 percent for the nine months ended September 30, 2022.

Total deposits increased $25.3 million, or 7.9 percent, during the three months ended September 30, 2023, $86.6 million during the nine months ended September 30, 2023, and $66.9 million year-over-year since September 30, 2022. The overall increase in deposits is attributable to growth of core deposit accounts, the company has added no brokered deposits during the nine months ended September 30, 2023.

Shareholders' equity totaled $94.9 million as of September 30, 2023, an increase of $4.4 million from December 31, 2022, primarily driven by $7.8 million in earnings during the nine months ended September 30, 2023, and partially offset by a negative adjustment of $2.4 million for unrealized losses in the Bank's available-for-sale securities portfolio and the payment of the Company's first cash dividend on its shares of common stock in the first quarter of 2023.

The Company reported 7,605,854 total shares of common stock outstanding as of September 30, 2023. The increase of 9,656 shares of common stock outstanding during the nine months ended September 30, 2023 is due to the exercise during the period of stock options granted.

Balance Sheets

Dollars in Thousands

	For the Periods Ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Cash and Cash Equivalents	$ 24,273	$ 38,011	$ 37,651	$ 15,851	$ 31,397
Investment Securities	306,334	313,202	316,336	317,541	321,496
Loans Held for Sale	1,345	426	1,682	677	766
Loans					
Loans	1,136,231	1,095,316	1,048,555	1,002,633	948,031
Less Allowance for Loan Losses	(10,463)	(10,462)	(10,281)	(10,111)	(9,210)
Loans, Net	$ 1,125,768	$ 1,084,854	$ 1,038,274	$ 992,522	$ 938,821
OREO					
Property, net of accumulated depreciation	$ 22,041	$ 22,494	$ 20,331	$ 19,888	$ 19,332
BOLI	30,132	29,924	29,721	29,517	29,324
Goodwill	5,349	5,349	5,349	5,349	5,349
Core Deposit Intangible	375	455	411	453	496
Other Assets	35,655	30,698	28,089	27,795	26,475
Total Assets	**$ 1,551,272**	**$ 1,525,413**	**$ 1,477,844**	**$ 1,409,593**	**$ 1,373,456**
Deposits					
Noninterest bearing	$ 344,011	$ 355,549	$ 343,822	$ 371,412	$ 400,321
Interest bearing	959,310	922,494	912,996	845,350	836,060
Total Deposits	$ 1,303,321	$ 1,278,043	$ 1,256,818	$ 1,216,762	$ 1,236,381
Subordinated Debt	29,611	29,580	29,550	29,520	29,488
Other Borrowings	104,000	104,900	80,000	56,475	804
Other Liabilities	19,414	16,304	17,031	16,297	18,583
Total Liabilities	**$ 1,456,346**	**$ 1,428,827**	**$ 1,383,399**	**$ 1,319,054**	**$ 1,285,256**
Stock with Related Surplus	$ 78,601	$ 78,483	$ 78,443	$ 78,908	$ 78,734
Retained Earnings	46,517	44,329	41,816	39,446	35,455
Accumulated Other Comprehensive Income	(30,192)	(26,226)	(25,814)	(27,815)	(25,989)
Shareholders' Equity	**$ 94,926**	**$ 96,586**	**$ 94,445**	**$ 90,539**	**$ 88,200**
Total Liabilities and Shareholders' Equity	**$ 1,551,272**	**$ 1,525,413**	**$ 1,477,844**	**$ 1,409,593**	**$ 1,373,456**

Net Interest Margin

Net interest margin, on a tax equivalent basis ("net interest margin"), decreased by 80 basis points to 2.83 percent for the three months ended September 30, 2023, compared to 3.63 percent for the three months ended September 30, 2022. Cost of funds increased by 189 basis points to 2.16 percent for the three months ended September 30, 2023 compared to 0.27 percent for the three months ended September 30, 2022, partially offset by an increase in yield on earning assets of 103 basis points to 4.91 percent for the quarter ended September 30, 2023 compared to the quarter ended September 30, 2022.

Net Interest Margin Analysis

Dollars in Millions

	Three Months Ended									
	September 30, 2023		June 30, 2023		March 31, 2023		December 31, 2022		September 30, 2022	
	Average Balance	Yield/ Rate	Average Balance	Yield/ Rate	Average Balance	Yield/ Rate	Average Balance	Yield/ Rate	Average Balance	Yield/ Rate
Interest earning assets										
Loans	$ 1,110	5.33%	$ 1,081	5.14%	$ 1,030	5.02%	$ 971	4.69%	$ 920	4.39%
Loan fees		0.09%		0.09%		0.10%		0.10%		0.17%
Loans with fees	$ 1,110	5.42%	$ 1,081	5.23%	$ 1,030	5.12%	$ 971	4.79%	$ 920	4.56%
Total interest earning assets	$ 1,478	4.91%	$ 1,437	4.71%	$ 1,388	4.52%	$ 1,332	4.29%	$ 1,357	3.88%
Interest-bearing liabilities										
Total interest bearing deposits	$ 938	2.57%	$ 920	2.15%	$ 870	1.45%	$ 831	0.62%	$ 851	0.28%
Total interest bearing liabilities	$ 1,069	2.88%	$ 1,046	2.46%	$ 975	1.76%	$ 882	0.80%	$ 881	0.39%
Cost of funds		**2.16%**		**1.86%**		**1.29%**		**0.56%**		**0.27%**
Net interest margin		**2.83%**		**2.92%**		**3.29%**		**3.76%**		**3.63%**

Credit Quality

Effective January 1, 2023, the Company adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments, including the current expected credit losses ("CECL") methodology for estimating the allowance for credit losses. The CECL methodology requires earlier recognition of credit losses using a life of loan, expected loss methodology that incorporates reasonable and supportable forecasts into the estimate.

The Company's adoption of the CECL methodology effective January 1, 2023 resulted in a $960,000 day-one reduction in required reserve levels under CECL. The Company recorded no provision for credit losses during the three months ended September 30, 2023 compared to a provision of $675 thousand for the three months ended September 30, 2022.

We continue to see excellent credit quality in our markets through September 30, 2023, with one loan classified as non-accrual, and no loans past due greater than 30 days as of September 30, 2023.

The Company continues to closely monitor credit quality in light of the recent events in the banking industry, including the recent bank failures, and the continued economic uncertainty due to the rising interest rate environment and persistent high inflation levels in the United States and our market areas. Accordingly, additional provisions for credit losses may be necessary in future periods.

Credit Quality Analysis

	For the Periods Ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
LLR to Total Loans	0.92%	0.96%	0.98%	1.01%	0.97%
NPAs to Avg Assets	0.01%	0.00%	0.00%	0.00%	0.00%
NCOs to Total Loans	0.00%	0.00%	0.00%	0.00%	0.00%
Past Due > 30 Days to Total Loans	0.00%	0.00%	0.00%	0.00%	0.00%
Total NPAs (thousands)	$ 156	$ -	$ -	$ -	$ -

Performance Ratios

	Three Months Ended				
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
ROAA	0.56%	0.67%	0.88%	1.13%	0.99%
ROAE	9.65%	11.03%	13.93%	25.18%	13.59%
Efficiency	75.32%	70.84%	67.11%	54.99%	62.97%
NIM	2.83%	2.92%	3.29%	3.76%	3.63%
Book Value	$ 12.48	$ 12.71	$ 12.43	$ 11.92	$ 11.62
Tangible Book Value	$ 11.73	$ 11.95	$ 11.66	$ 11.14	$ 10.84

Regulatory Capital Position

The Bank's capital position remains above the regulatory thresholds required to be deemed "well-capitalized," as shown in the table below, with a total risk-based capital ratio of 12.73 percent and leverage ratio of 9.11 percent as of September 30, 2023.

Regulatory Capital Ratios

	For the Periods Ended				
Bank Only	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Tier 1	11.84%	12.00%	12.12%	11.18%	11.13%
Leverage	9.11%	9.23%	9.13%	8.56%	8.33%
CET-1	11.84%	12.00%	12.12%	11.18%	11.13%
Total	12.73%	12.91%	13.05%	12.12%	12.01%

	For the Periods Ended				
Additional Data	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Branches	12	12	12	12	12
Employees (Full Time Equivalent)	165	170	164	158	152

Liquidity and Interest Rate Risk Management

The Company regularly pledges loans and securities to the Federal Reserve Bank of Richmond ("FRB") and Federal Home Loan Bank ("FHLB"), resulting in total net borrowing capacity with the FRB, FHLB, and correspondent lines of credit of approximately $243.9 million. The Company had $4.0 million in outstanding borrowings with the FRB at September 30, 2023, compared to $24.9 million at June 30, 2023, and no outstanding borrowings with the Bank Term Funding Program. Additionally, the Company pledges portions of its investment securities portfolio to secure public funds deposits.

The Company has an available-for-sale debt securities portfolio with a fair market value of $209.2 million at September 30, 2023. Approximately $26.6 million in book value is expected to mature within the next twelve months.

As part of the Company's ongoing Interest Rate Risk Management, the company has entered into a series of pay-fixed rate, receive floating rate SOFR swap transactions ("Pay-Fixed Agreements"). The Pay-Fixed Agreements are designed as an interest rate hedge for matched-term Federal Home Loan Bank advances and to hedge the risk of changes in fair value of certain fixed rate loans in the Company's loan portfolio. The Pay-Fixed Agreements have a total notional value of $175.0 million, and have stratified maturities between two and five years.

About South Atlantic Bancshares, Inc.

South Atlantic Bancshares, Inc. (OTCQX: SABK) is a registered bank holding company based in Myrtle Beach, South Carolina with approximately $1.6 billion in total assets as of September 30, 2023. The Company's banking subsidiary, South Atlantic Bank, is a full-service financial institution spanning the entire coastal area of South Carolina, and is locally owned, controlled and operated. The Bank operates twelve locations in Myrtle Beach, Carolina Forest, North Myrtle Beach, Murrells Inlet, Pawleys Island, Georgetown, Mount Pleasant, Charleston, Bluffton, Hilton Head Island and Beaufort, South Carolina. The Bank specializes in providing personalized community banking services to individuals, small businesses and corporations. Services include a full range of consumer and commercial banking products, including mortgage, and treasury management, including South Atlantic Bank goMobile, the Bank's mobile banking app. The Bank also offers internet banking, no-fee ATM access, checking, certificates of deposit and money market accounts, merchant services, mortgage loans, remote deposit capture, and more. For more information, visit www.SouthAtlantic.bank.

Cautionary Statement Regarding Forward-Looking Statements

This press release contains, among other things, certain statements about future events that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements with references to a future period or statements preceded by, followed by, or that include the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "project," "outlook" or similar terms or expressions. These statements are based upon the current beliefs and good faith expectations of the Company's management team and are subject to significant risks and uncertainties that are subject to change based on various factors (many of which are beyond the Company's control). These risks, uncertainties and other factors may cause the actual results, performance, and achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed in, or implied by, the forward-looking statements. Factors that could cause such differences include, but are not limited to: the impact on us or our customers of a decline in general economic conditions, and any regulatory responses thereto, potential recession in the United States and our market areas, the impacts related to or resulting from recent bank failures and any continuation of the recent uncertainty in the banking industry, including the associated impact to the Company and other financial institutions of any regulatory changes or other mitigation efforts taken by government agencies in response thereto, increased competition for deposits and related changes in deposit customer behavior, changes in market interest rates and loan and deposit pricing, the persistence of the current inflationary environment in our market areas and the United States, the uncertain impacts of ongoing quantitative tightening and current and future monetary policies of the Board of Governors of the Federal Reserve System, the effects of declines in housing prices in the United States and our market areas, increases in unemployment rates in the United States and our market areas, declines in commercial real estate prices, uncertainty regarding United States fiscal debt and budget matters, cyber incidents or other failures, disruptions or security breaches, severe weather, natural disasters, acts of war or terrorism or other external events, regulatory considerations, competition and market expansion opportunities, changes in non-interest expenditures or in the anticipated benefits of such expenditures, the receipt of required regulatory approvals, changes in tax laws, and current or future litigation, regulatory examinations or other legal and/or regulatory actions. These forward-looking statements are based on current information and/or management's good faith belief as to future events. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate. Therefore, the Company can give no assurance that the results contemplated in the forward-looking statements will be realized. Due to these and other possible uncertainties and risks, readers are cautioned not to place undue reliance on the forward-looking statements contained in this press release. The inclusion of this forward-looking information should not be construed as a representation by the Company or any person that the future events, plans, or expectations contemplated by the Company will be achieved. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above. Any forward-looking statements contained in this press release are made as of the date hereof, and the Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made, except as required by law. All forward-looking statements, express or implied, included in the press release are qualified in their entirety by this cautionary statement.

Information contained herein, other than information as of December 31, 2022, is unaudited. All financial data should be read in conjunction with the notes to the consolidated financial statements of the Company and the Bank as of and for the fiscal year ended December 31, 2022, as contained in the Company's 2022 Annual Report located on the Company's website.

Available Information

The Company maintains an Internet web site at www.southatlantic.bank/about-us/investor-relations. The Company makes available, free of charge, on its web site the Company's annual meeting materials, annual reports, and quarterly earnings reports. In addition, the OTC Markets Group maintains an Internet site that contains reports, proxy and information statements, and other information regarding the Company (at www.otcmarkets.com/stock/SABK/overview).

The Company routinely posts important information for investors on its web site (under www.southatlantic.bank and, more specifically, under the Investor Relations tab at www.southatlantic.bank/about-us/investor-relations/). The Company intends to use its web site as a means of disclosing material non-public information and for complying with its disclosure obligations under the OTC Markets Group OTCQX Rules for U.S. Banks. Accordingly, investors should monitor the Company's web site, in addition to following the Company's press releases, OTC filings, public conference calls, presentations and webcasts.

The information contained on, or that may be accessed through, the Company's web site is not incorporated by reference into, and is not a part of, this press release.

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