South Atlantic Bancshares, Inc.

2014 ANNUAL REPORT

Corporate Information

About South Atlantic Bank

South Atlantic Bank was organized in 2007 to meet the unique financial needs of businesses and consumers in the coastal communities we serve. The bank's founders recognized that the growing number of regional banks in the market created an opportunity for a locally owned and operated community bank to succeed. South Atlantic Bank opened its first office in Myrtle Beach in November 2007, and since then has added locations in Murrells Inlet, Pawleys Island, Georgetown, Mount Pleasant, and North Myrtle Beach. The bank's product menu includes personal and business checking, savings, and money market accounts, along with mortgages, loans, and lines of credit. The bank also offers a wide variety of technologically advanced products including its mobile banking app, South Atlantic Bank *go*Mobile. The bank's officers and employees are focused on establishing customer relationships through quality service and convenience with a high level of personal attention. South Atlantic Bank is a South Carolina chartered bank that is fully insured by the FDIC. Its community banking philosophy strongly emphasizes credit quality, sound banking practices, and exemplary customer service as a model for success.

Mission Statement

To serve, in a fair, balanced, and superior manner, the interest of shareholders, customers, employees, and the public through adherence to high standards of financial soundness, exemplary customer service, employee professionalism, business ethics, corporate citizenship, and profitability.

Stock Information

The common stock of South Atlantic Bancshares, Inc. is privately held and is not listed on any exchange. Limited trades were conducted in 2014. As of December 31, 2014, there were 445 shareholders of record.

Annual Meeting

The Annual Meeting of Shareholders of South Atlantic Bancshares, Inc. will take place on Tuesday, April 21, 2015, at 5:30 p.m. at the bank's headquarters at 630 29th Avenue North, Myrtle Beach, South Carolina, 29577.

Registrar and Transfer Agent

Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717-0718
E-mail: shareholder@broadridge.com
Toll-free: 1.855.449.0975

Corporate Counsel

Nelson Mullins Riley & Scarborough LLP
Poinsett Plaza, Suite 900
104 South Main Street
Greenville, SC 29601-2122

Independent Accountants

Elliott Davis Decosimo, LLC
1901 Main Street, Suite 900
Columbia, SC 29201-2457

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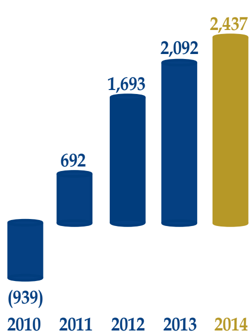
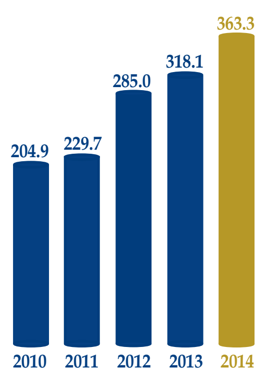
On the front cover: Surfside Beach at dawn. Photo by: Dave Klee.

Selected Financial Highlights

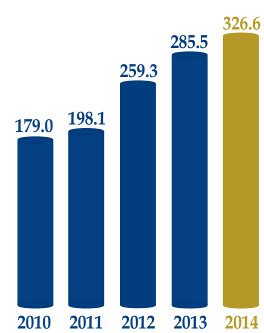
	For the Year Ended 2014	For the Year Ended 2013	For the Year Ended 2012	For the Year Ended 2011	For the Year Ended 2010
Year End Balances (in thousands)					
Total assets	$ 363,348	$ 318,057	$ 284,988	$ 229,725	$ 204,909
Investment securities	52,607	73,727	59,455	37,769	22,289
Loans, net of unearned income (total loans)	262,646	218,174	189,979	169,638	162,894
Deposits	326,594	285,519	259,338	198,086	178,871
Shareholders' equity	32,242	24,141	25,359	22,937	20,725
Average Balances (in thousands)					
Total assets	$ 341,288	$ 307,746	$ 263,886	$ 227,637	$ 188,535
Earning assets	318,590	281,908	243,927	213,033	173,812
Investment securities	67,306	69,880	49,505	34,829	21,028
Loans, net of unearned income (total loans)	239,797	199,817	173,624	164,188	144,490
Deposits	308,929	281,306	238,513	203,909	165,660
Shareholders' equity	26,925	24,904	24,092	21,843	21,606
Earnings Breakdown (in thousands)					
Total interest income	$ 13,012	$ 11,291	$ 10,002	$ 9,496	$ 7,955
Total interest expense	1,188	1,311	1,620	2,144	2,792
Net interest income	11,825	9,980	8,382	7,352	5,162
Total noninterest income	1,705	2,146	2,704	841	540
Total noninterest expense	10,618	9,305	8,063	6,192	5,610
Provision for loan losses	475	730	1,330	1,310	1,031
Income before taxes	2,437	2,092	1,693	692	(939)
Taxes	433	447	(869)	(463)	6
Net income (loss)	2,004	1,645	2,562	1,155	(945)
Selected % Increases					
Total assets	14.24%	11.60%	24.06%	12.11%	24.94%
Total interest earning assets	14.04%	11.93%	25.58%	10.44%	26.78%
Total loans	20.38%	14.84%	11.99%	4.14%	34.46%
Total deposits	14.39%	10.10%	30.92%	10.74%	25.89%
Interest income	15.24%	12.89%	5.33%	19.38%	42.37%
Interest expense	(9.40)%	(19.09)%	(24.44)%	(23.22)%	1.56%
Noninterest income	(20.54)%	(20.62)%	221.37%	55.84%	3.34%
Noninterest expense	14.11%	15.40%	30.22%	10.36%	13.73%
Selected Ratios					
Return on assets	0.55%	0.53%	0.97%	0.30%	(0.44)%
Return on equity	7.44%	6.60%	10.63%	3.17%	(3.72)%
Interest income to total average assets	3.81%	3.67%	3.79%	4.17%	4.22%
Interest expense to total average assets	0.35%	0.43%	0.61%	0.94%	1.48%
Net interest income to total average assets	3.46%	3.24%	3.18%	3.23%	2.74%
Loan loss reserve to total loans	1.00%	1.10%	1.21%	1.39%	1.21%
Nonperforming assets to total average assets	0.13%	0.13%	0.77%	0.58%	0.32%
Net charge-offs to total average assets	0.07%	0.21%	0.52%	0.41%	0.35%
Net interest margin	3.79%	3.54%	3.43%	3.40%	2.88%



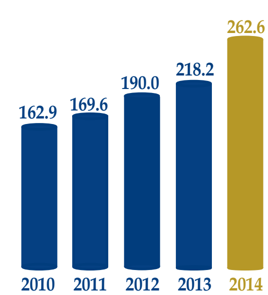
Income Before Taxes
$ in thousands



Total Assets
$ in millions



Total Deposits
$ in millions



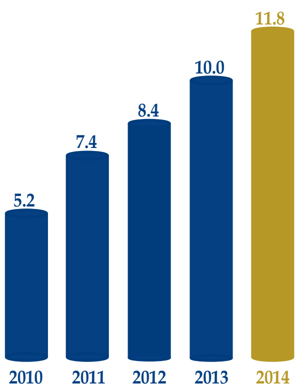
Total Loans
$ in millions

To Our Shareholders and Friends:

South Atlantic Bancshares, Inc. (the company) and its subsidiary, South Atlantic Bank (the bank), completed another successful year in 2014, highlighted by continued profitability, expansion into new markets, capital growth, and improved market share. I am pleased to share our results with you in this report.

Net Income Grows 21.9 Percent

The company reported net income of $2,004,218 or $0.65 per diluted share for the year ended December 31, 2014, compared to the $1,644,650 or $0.53 per diluted share reported for the same period a year ago. At year-end 2014, the company marked its fourth consecutive profitable year.



Net Interest Income
$ in millions

The 21.9 percent increase in net income can be attributed in large part to loan growth within our expanded geographic footprint and strong performances from the mortgage loan, merchant services, and credit card lines of business. Overall, net interest income grew 18.5 percent while noninterest income from mortgage services, merchant services, and credit cards grew 20.8 percent, 14.2 percent, and 17.2 percent respectively.

In 2014, we experienced a 14.1 percent increase in non-interest expense, primarily in occupancy and salary expense incurred as we added locations. We ended the year with 66 employees as we built our team and developed the infrastructure needed to support a growing and vibrant bank. We are already seeing a return on this investment through overall loan and deposit growth.

Balance Sheet Growth

Total loans grew 20.4 percent, from the $218.2 million reported at December 31, 2013 to $262.6 million at December 31, 2014. Factors contributing to the increase included a strengthening economy throughout the markets we serve, along with the ability to serve a larger marketplace through our new locations.

During this period of solid loan growth, our credit quality has remained strong with net charge-offs to total average assets of 0.07 percent, which compares favorably to state and national figures. The bank has now recorded three consecutive quarters with zero past dues, a significant accomplishment based on a portfolio in excess of $260 million. We are seeing signs in the market that competition is heating up, especially among the large national banks. We believe that we are only as strong as our credit quality and will not be drawn into sacrificing credit quality for growth in the portfolio.

We also experienced double digit growth in deposits, up 14.4 percent, from $285.5 million reported at December 31, 2013, to $326.6 million at December 31, 2014. This growth underscores our bank's acceptance in the community and the trust customers have placed in us to handle their financial needs. Our staff has done an excellent job in delivering South Atlantic Bank's brand of exemplary customer service to gain and expand customer relationships.

Total assets grew 14.2 percent, from $318.0 million at December 31, 2013 to $363.3 million at December 31, 2014.

K. Wayne Wicker
Chairman
Chief Executive Officer

End of de Novo Period

In November 2014, the bank marked its seventh anniversary, and with it, the end of its de novo, or new bank, status with the FDIC. This seven-year period is designed to protect the FDIC insurance fund and ensure that new banks, such as South Atlantic Bank, stay healthy while limiting risk. During their first seven years of existence, newly-ensured financial institutions are subject to higher capital requirements, more frequent examinations, and constraints on expansion, particularly on new branch applications if the expansion was not included in the original business plan. With our de novo period complete, we are entering a new phase in our bank's history and look forward to continued stability and future growth and expansion.

Completion of Stock Offering

At the end of 2014, we completed the first phase of a private placement offering for shares of our common stock, which bolstered our already strong capital ratios. The second phase of the offering continued into the first quarter of 2015. Proceeds from the offering will be used for general corporate purposes and to support the growth and capital position of the bank. We welcome our new shareholders to the bank and thank all our shareholders for their investment.

Developing Infrastructure

South Atlantic Bank has grown from 13 employees and one location in 2007 to 72 employees serving six locations today. In the past two years, we added branch staff for new locations and in operational roles to support the expansion effort. We filled key positions, adding a chief credit officer, a retail market sales leader, and a compliance officer, all much needed roles in a bank our size. We are also adding more support in the marketing and deposit operations areas. A management training program was implemented in 2014 to develop the talent that exists within the bank to fill new roles as we grow.

Expanding Along Coastal South Carolina

We broke ground in late April for our new Pawleys Island office, watched the building rise during the summer and fall, and moved in a few weeks before year-end. The 4,000 square-foot office is a one-story version of our Myrtle Beach and Murrells Inlet locations, complete with the distinctive pulley-operated ceiling fans, deep porticos, and louvered storm shutters. The new office provides a larger, much more visible location that will allow us to build on the success achieved in our first two years in the market in a smaller facility.

South Atlantic Bank - Branch Network

Our Mount Pleasant loan production office became our fifth full service location in October 2014. The office achieved profitability within its first year of operation and has been well-received in the community. The Mount Pleasant/Charleston market is experiencing solid growth and will play an important part in our bank's future.

Late in 2014, we took advantage of an opportunity to enter the North Myrtle Beach market when a strong location and equally as strong bankers became available. We renovated a former bank building in the city's Crescent Beach section and opened in February of this year. We look forward to serving this community.

Growth in Market Share

South Atlantic Bank made strides in market share according to yearly data released by the FDIC as of June 30, 2014. Overall, our bank continues to achieve more growth with its locations in Horry and Georgetown counties than other banks with double the number of offices in the counties. We ranked eighth in the two-county area with market share of 5.22 percent. In Myrtle Beach zip code 29577, the bank achieved market share of nearly 12 percent with one location — our Myrtle Beach headquarters — good for third place out of 15 competitors. Our Murrells Inlet office ranked first in zip code 29576 and second in the city, again on the strength of one location. In just its second year of operations, our Pawleys Island office ranked fifth with market share of 11.02 percent. Our Georgetown office recently completed its first year of service with market share of 4.13 percent.

Community Service and Honors

As a good corporate citizen, South Atlantic Bank understands its responsibility to help the communities it serves. We continue to support our schools, the arts, and the many organizations that help those in need, through sponsorship and fundraisers. Our employees also give generously, donating to causes and serving as board members and volunteers for various organizations.

In 2014, the bank was awarded the Myrtle Beach Area Chamber of Commerce's "Business Innovation Award," given to the business that exceeds the standard for resourcefulness and creativity in the workplace. The bank was also recognized by readers of the Myrtle Beach Herald in its Readers' Choice poll as the best bank in the Myrtle Beach area. It is truly an honor to receive these accolades.

We hope you are pleased with all that has been achieved in the past year, and indeed in our past seven years. As always, we appreciate your investment in our bank. We look forward to seeing you at the Annual Meeting of Shareholders to take place at our Myrtle Beach headquarters beginning at 5:30 p.m. on Tuesday, April 21.

K. Wayne Wicker

K. Wayne Wicker
Chairman of the Board
Chief Executive Officer

From the North Strand to Mount Pleasant, South Atlantic Bankers Have it Covered

Since its founding in 2007, South Atlantic Bank has grown from one location in Myrtle Beach to six locations spanning coastal South Carolina from North Myrtle Beach to Mount Pleasant.

For each new office, the bank has followed its formula for success, making sure the right bankers and locations are in place before moving ahead, which ensures growth that is structured and well-planned.

Our expansion became the focus of a new ad campaign emphasizing that no matter the market, South Atlantic Bank has it covered. The ads featured a mix of our employees from new and established offices in familiar settings along the Grand Strand and in Mount Pleasant. The campaign showcased our talented bankers and growing branch network while helping to further build our brand as the go-to community bank in our markets.

But having it covered is much more than a campaign slogan.

It means that our locations, our technology, our products, and our employees will consistently exceed customer expectations. It means that these elements all are working in tandem to produce the highest levels of service.

Locations and Technology

In December 2014, we moved into our new Pawleys Island office located at 10970 Ocean Highway. The move came just two and one-half years after we entered the market in a much smaller facility nearby. Built on 1.15 acres, the office is signature South Atlantic Bank, right down to the ceiling fans, porticos, and storm shutters.

Pawleys Island Office

North Myrtle Beach Office

The interior boasts a reception area complete with comfortable chairs, local newspapers and magazines, a television, and hot coffee, all of which provide a warm and inviting atmosphere that instantly puts customers at ease. The office also uses technology to enhance the customer's banking experience. A user-friendly kiosk allows customers to learn about the bank's products and services including online and mobile banking. At the teller line, a cash recycler streamlines the processing of deposits for faster, more efficient service. Additionally, customers can gain entry to their safe deposit boxes via a biometric access system that uses the combination of their hand prints and personal codes to confirm their identity. The overall branch design emphasizes efficient, convenient service, and may serve as a prototype for future South Atlantic Bank branches.

In late 2014, the bank anounced plans to open an office in North Myrtle Beach, renovating a former bank building at 1801 Highway 17 South. The location represented a great opportunity for the bank in this market and the new office opened in February 2015. Also in 2014, the bank's Mount Pleasant loan production office became a full service branch. Exemplary bankers who share South Atlantic Bank's commitment to sound banking practices, strong credit quality, and exemplary customer service, staff the offices.

Products and Technology

From traditional online banking to mobile banking and instant issue debit cards, South Atlantic Bank offers all the technologically advanced products usually found only at much larger banks. Our customers can do their banking whenever and wherever they want — online, on the phone, at the ATM, and of course, at any of our six locations. The bank is committed to providing safe and secure banking solutions to customers.

We also listen carefully to our customers to meet their needs. A case in point is our new Business 500 checking product. We received feedback indicating that small business customers were looking for a mid-tier account to meet their needs. Many had more checking activity than our free account allows, but not enough to warrant a full analysis account. So we created Business 500 checking, which provides 500 items at no cost with a per item fee for additional items and several minimum balance options to avoid a monthly maintenance fee.

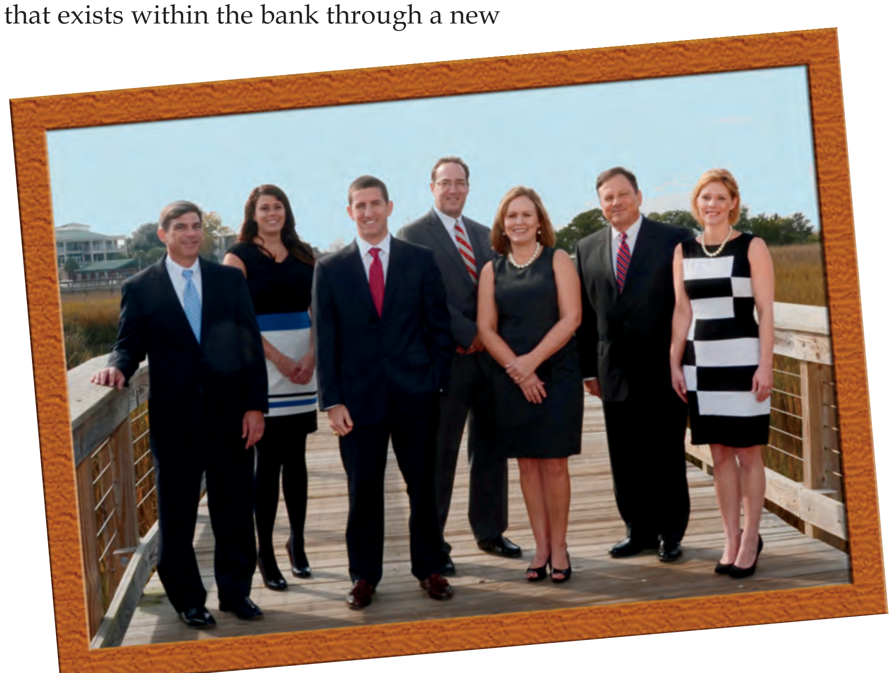
Good communication between customer contact staff and bank management was key to the new product's development. To further involve our entire team, we had a "Name the Product" contest and Business 500 was chosen from more than 30 suggestions.

Employees

The final component to having it covered is our staff. Having the right bankers in the right locations and in the right roles has been key to the bank's growth and success. We have been able to place seasoned bankers with extensive local experience in each of our locations.

We are also committed to developing the talent that exists within the bank through a new management training program that was implemented in May 2014. During the six-month program, participants spend two weeks of every month working in the various departments of the bank to learn all facets of banking. Two employees recently completed the course and have taken on new duties in their respective locations. The recently-appointed retail market sales leader will oversee the program and mentor students.

The right locations, strong products, leading technology, and outstanding bankers — at South Atlantic Bank, we have it covered!



Mount Pleasant Staff

Independent Auditor's Report

The Board of Directors
South Atlantic Bancshares, Inc. and Subsidiary
Myrtle Beach, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of South Atlantic Bancshares, Inc. and its subsidiary which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of South Atlantic Bancshares, Inc. and its subsidiary as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
March 10, 2015

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets

	For the Years Ended December 31, 2014	2013
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 2,553,286	$ 1,160,068
Federal funds sold and interest-bearing deposits	22,079,446	3,515,627
Total cash and cash equivalents	24,632,732	4,675,695
Investment securities:		
Securities available-for-sale	52,320,374	73,018,770
Nonmarketable equity securities	286,300	708,300
Total investment securities	52,606,674	73,727,070
Mortgage loans held-for-sale	360,035	137,281
Loans receivable	262,286,214	218,036,846
Less allowance for loan losses	2,624,797	2,394,588
Loans, net	259,661,417	215,642,258
Premises, furniture and equipment, net	16,775,509	14,648,103
Bank-owned life insurance	5,530,376	5,370,213
Other real estate owned	101,765	40,000
Accrued interest receivable	1,375,907	1,439,689
Other assets	2,303,518	2,376,365
Total assets	**$ 363,347,933**	**$ 318,056,674**
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 68,225,992	$ 38,396,560
Interest-bearing transaction accounts	25,554,864	20,913,939
Savings and money market accounts	182,605,318	175,318,204
Time deposits $100,000 and over	26,864,147	25,355,877
Other time deposits	23,343,631	25,534,027
Total deposits	326,593,952	285,518,607
Advances from Federal Home Loan Bank	–	8,140,000
Accrued interest payable	26,484	14,991
Notes payable	1,271,000	–
Other liabilities	3,214,702	242,236
Total liabilities	**$ 331,106,138**	**$ 293,915,834**
Commitments and contingencies (Notes 12, 14, and 19)		
Shareholders' equity:		
Preferred stock, $1.00 par value per share, 5,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, $1.00 par value, 25,000,000 shares authorized; 3,372,042 and 3,037,315 shares issued and outstanding at December 31, 2014 and 2013, respectively	3,372,042	3,037,315
Capital surplus	28,583,406	25,597,101
Retained earnings (deficit)	426,253	(1,577,965)
Accumulated other comprehensive income (loss)	(139,906)	(2,915,611)
Total shareholders' equity	32,241,795	24,140,840
Total liabilities and shareholders' equity	**$ 363,347,933**	**$ 318,056,674**

See accompanying *Notes to Consolidated Financial Statements*.

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Statements of Income

	For the Years Ended December 31, 2014	For the Years Ended December 31, 2013
Interest income:		
Loans, including fees	$ 11,667,368	$ 10,017,877
Securities available-for-sale	1,323,076	1,236,050
Federal funds sold and interest-bearing deposits	21,835	37,173
Total	13,012,279	11,291,100
Interest expense:		
Time deposits $100,000 and over	203,898	216,669
Other deposits	952,593	1,090,099
Other borrowings	31,038	4,015
Total	1,187,529	1,310,783
Net interest income	**11,824,750**	**9,980,317**
Provision for loan losses	475,000	730,000
Net interest income after provision for loan losses	**11,349,750**	**9,250,317**
Noninterest income:		
Mortgage origination income	481,466	398,713
Merchant fee income	379,663	332,445
Service charges on deposit accounts	119,035	113,342
Gain on sale of investment securities	79,264	11,060
Bank-owned life insurance income	160,164	174,796
Gain on sale of loans	–	592,275
Other fee income	485,886	373,079
Total noninterest income	1,705,478	1,995,710
Noninterest expenses:		
Salaries and employee benefits	6,414,016	5,122,634
Net occupancy	804,602	676,202
Furniture and equipment	397,159	340,357
FDIC banking assessments	211,272	227,169
Advertising	410,391	312,631
Other operating expenses	2,380,687	2,475,211
Total noninterest expenses	10,618,127	9,154,204
Income before income taxes	2,437,101	2,091,823
Income taxes	432,883	447,173
Net income	**$ 2,004,218**	**$ 1,644,650**
Income per common share:		
Basic income per common share	**$ 0.66**	**$ 0.54**
Average common shares outstanding – basic	3,038,232	3,032,162
Diluted income per common share	**$ 0.65**	**$ 0.53**
Average common shares outstanding – diluted	3,098,293	3,075,164

See accompanying *Notes to Consolidated Financial Statements*.

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)

	2014	2013
Net Income	**$ 2,004,218**	**$ 1,644,650**
Other comprehensive income (loss)		
Unrealized gain (loss) on securities available-for-sale	3,731,507	(3,920,144)
Reclassification adjustment for gains realized in net income	(79,264)	(11,060)
Net unrealized gains (losses) on securities	3,652,243	(3,909,084)
Income tax benefit (expense)	(876,538)	945,455
Net-of-tax amount	$ 2,775,705	$ (2,963,629)
Comprehensive income (loss)	**$ 4,779,923**	**$ (1,318,979)**

See accompanying *Notes to Consolidated Financial Statements*.

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2014 and 2013

	Common Stock Shares	Common Stock Amount	Capital surplus	Retained deficit	Accumulated other comprehensive income (loss)	Total
Balance, December 31, 2012	**3,026,315**	**$ 3,026,315**	**$ 25,507,384**	**$ (3,222,615)**	**$ 48,018**	**$ 25,359,102**
Net income	–	–	–	1,644,650	–	1,644,650
Other comprehensive loss, net of tax benefit of $945,455	–	–	–	–	(2,963,629)	(2,963,629)
Stock option and warrant compensation expense	–	–	727	–	–	727
Exercise of stock warrants	11,000	11,000	88,990	–	–	99,990
Balance, December 31, 2013	**3,037,315**	**$ 3,037,315**	**$ 25,597,101**	**$ (1,577,965)**	**$ (2,915,611)**	**$ 24,140,840**
Net income	–	–	–	2,004,218	–	2,004,218
Other comprehensive gain, net of tax expense of $876,538	–	–	–	–	2,775,705	2,775,705
Stock option and warrant compensation expense	–	–	2,908	–	–	2,908
Proceeds from stock offering, net	334,727	334,727	2,983,397	–	–	3,318,124
Balance, December 31, 2014	**3,372,042**	**$ 3,372,042**	**$ 28,583,406**	**$ (426,253)**	**$ (139,906)**	**$ 32,241,795**

See accompanying *Notes to Consolidated Financial Statements*.

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Statements of Cash Flows

	For the years ended December 31, 2014	2013
Cash flows from operating activities:		
Net income	$ 2,004,218	$ 1,644,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	475,000	730,000
Depreciation expense	579,153	516,794
Discount accretion and premium amortization	968,064	1,092,588
Stock and warrant compensation expense	2,908	727
Gain on sale of securities	(79,264)	(11,060)
Deferred tax benefit (expense)	(1,350,989)	594,557
Amortization of deferred loan costs and fees, net	254,716	(231,483)
Write downs of other real estate owned	10,000	86,979
Loss on sale of other real estate owned	—	160,456
Decrease (increase) in accrued interest receivable	63,782	(490,924)
Increase (decrease) in accrued interest payable	11,493	(1,498)
Decrease (increase) in other assets	547,298	(207,328)
Increase (decrease) in other liabilities	2,972,466	(31,744)
Net cash provided by operating activities	6,458,845	3,852,714
Investing activities:		
Purchase of securities available-for-sale	(20,906,806)	(55,345,552)
Proceeds from sales of securities available-for-sale	40,183,253	28,114,758
Proceeds from maturities, calls, and paydowns of securities available-for-sale	4,185,392	8,331,669
(Purchase) sale of nonmarketable equity securities	422,000	(363,700)
Net increase in loans	(45,227,975)	(28,905,674)
Purchase of bank-owned life insurance	(160,163)	(174,796)
Proceeds from sale of premises, furniture, and equipment	(2,706,559)	42,321
Proceeds from sale of other real estate owned	184,581	420,390
Net cash used by investing activities	(24,026,277)	(49,480,949)
Financing activities:		
Increase in noninterest-bearing deposits	28,829,432	7,387,360
Increase in interest-bearing deposits	11,245,913	18,793,262
Proceeds from Federal Home Loan Bank Advances	—	8,140,000
Repayments of Federal Home Loan Bank Advances	(8,140,000)	—
Increase in notes payable	1,271,000	—
Proceeds from stock offering, net	3,318,124	—
Proceeds from stock warrants exercised	—	99,990
Net cash provided by financing activities	37,524,469	34,420,612
Net increase (decrease) in cash and cash equivalents	19,957,037	(11,207,623)
Cash and cash equivalents, beginning of year	4,675,695	15,883,318
Cash and cash equivalents, end of year	**$ 24,632,732**	**$ 4,675,695**
Cash paid during the year for:		
Interest	$ 1,176,036	$ 1,312,280
Income taxes	$ 70,465	$ 104,331
Noncash investing and financing activities:		
Unrealized gain (loss) on securities available-for-sale	$ 2,775,705	$ (2,963,269)
Transfer of loans to other real estate owned	$ 256,346	$ 300,000

See accompanying *Notes to Consolidated Financial Statements*.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies and Activities

Organization: South Atlantic Bancshares, Inc. and Subsidiary (the Company) was incorporated to serve as a bank holding company for its subsidiary, South Atlantic Bank (the Bank). South Atlantic Bank commenced business on November 28, 2007. The principal business activity of the Bank is to provide banking services to domestic markets, principally in Horry, Georgetown and Charleston counties, South Carolina. The Bank is a state-chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation. The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions.

Management's Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the statements of income for the periods covered. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the near term.

Concentrations of Credit Risk: Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, bank owned life insurance, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in Horry, Georgetown and Charleston counties in South Carolina. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. However, to offset this risk, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully amortized (i.e. balloon payment loans usually 5 to 7 years). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company's investment portfolio consists principally of obligations of the United States, its agencies or its corporations and general obligation municipals. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Securities Available-for-Sale: Securities available-for-sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in shareholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sale are recorded on the trade date and determined using the specific identification method.

Nonmarketable Equity Securities: Nonmarketable equity securities include the cost of the Company's investment in the stock of the Federal Home Loan Bank. The stock has no quoted market value and no ready market exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank. At December 31, 2014 and 2013, the investment in Federal Home Loan Bank stock was $286,300 and $708,300, respectively. Dividends received on the stock is included in the federal funds sold and short-term investments component of interest income.

Loans Held-for-Sale: The Bank's mortgage activities are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgages and selling mortgages to investors under pre-existing commitments. Funded residential mortgages held temporarily for sale to investors are recorded at cost which approximates market value. Application and origination fees collected by the Bank are recognized as income upon sale to the investor.

Loans Receivable: Loans are stated at their unpaid principal balance adjusted for any unamortized deferred fees and costs. Interest income is accrued on the unpaid principal balance using the simple interest method and is recorded in the period earned.

When serious doubt exists as to the collectibility of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed.

While a loan is on nonaccrual status, the Company's policy is that all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to recoveries of any amounts previously charged off. Further cash receipts are recorded as interest income to the extent that any interest has been foregone. Loans are removed from nonaccrual status when they become current as to both principal and interest, when concern no longer exists as to the collectability of principal or interest, and after a sufficient history of satisfactory payment performance has been established.

Impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the collateral less estimated selling costs if the loan is collateral dependent. When management determines that a loan is impaired, the difference between the Company's investment in the related loan and the present value of the expected future cash flows, the market price of the loan if available or the fair value of the collateral less estimated selling costs, is charged to the allowance for loan losses. The accrual of interest is discontinued on an impaired loan when management determines that the borrower may be unable to meet payments as they become due. Subsequent interest earned is recognized only to the point that cash payments are received. All payments are applied to principal if the entire amount of principal is not expected to be collected.

Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using a method that approximates a level yield.

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected.

Allowance for Loan Losses: The provision for loan losses charged to operating expenses reflects the amount deemed appropriate by management to establish an adequate reserve to meet the probable loan losses present in the current portfolio. Management's judgment is based on periodic and regular evaluation of individual loans, the overall risk characteristics of the various portfolio segments, and prevailing economic conditions. Loans that are determined to be uncollectible are charged against the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance.

While management uses the best information available to make evaluations, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and are classified as impaired.

When the ultimate collectibility of an impaired loan's principal is in doubt, wholly or partially, cash receipts are applied to principal. Once the reported principal balance has been reduced to the loan's estimated net realized value, future cash receipts are applied to interest income, to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off. When this doubt does not exist, cash receipts are applied under the contractual terms of the loan agreement first to interest income then to principal.

A loan is also considered impaired if its terms are modified in a troubled debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest receivable in accordance with the terms of the restructured loan agreement. Interest income is recognized on these loans using the accrual method of accounting.

Premises and Equipment: Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings and improvements of 40 years, for furniture and equipment of 5 to 10 years and software of 3 years. Leasehold improvements are amortized over the life of each respective lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the income statement when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Other Real Estate Owned: Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed by management and are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. Revenue and expense from the operations of foreclosed assets and changes in the valuation allowances are included in net expenses from foreclosed assets in other operating expenses.

Income Taxes: Income taxes are the sum of amounts currently payable to taxing authorities and the net changes in income taxes payable or refundable in future years. Income taxes deferred to future years are determined utilizing a liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting and tax bases of certain assets and liabilities which are principally the allowance for loan losses, depreciable premises and equipment, and the net operating loss carryforward.

The Company follows the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740-10, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The provision also prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise's tax return. No uncertain tax provisions have been taken.

Employee Benefits: The Bank sponsors a defined contribution 401(k) plan covering substantially all full-time employees. Under the plan and present policies, participants are permitted to make contributions up to the deferral limits allowed by the Internal Revenue Service. The Company contributes to the Plan annually upon approval by the Board of Directors. The amount of the contributions made is at the discretion of the Board with vesting of these employer contributions ratably over the next five-year period. During the years ended December 31, 2014 and 2013, the Bank recognized $161,137 and $124,778, respectively, in expenses related to this plan.

On January 1, 2013, then Bank converted the defined contribution 401(k) contribution plan into a 401(k) Employee Stock Ownership Plan ("KSOP"), which provides a mechanism for Company employees to invest. Each employee who has attained age twenty-one and has completed at least 1,000 hours or service in a Plan year is eligible to participate in the KSOP. The Company recognizes expense when the contribution is approved by the Board of Directors. There was no expense for the year ended December 31, 2014 and 2013.

Advertising Expense: Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expended in the period in which the direct mailings are sent.

Income Per Share: Basic income per share represents income available to shareholders divided by the weighted-average number of common shares outstanding during the period. Dilutive income per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. The only potential common share equivalents are those related to stock options and warrants. Stock options and warrants which are anti-dilutive are excluded from the calculation of diluted net income per share. The dilutive effect of options and warrants outstanding under the Company's stock compensation plan is reflected in diluted earnings per share by the application of the treasury stock method. Retroactive recognition has been given for the effects of all stock dividends.

Stock-Based Compensation: The Company accounts for stock options and warrants under the fair value recognition provisions of FASB ASC 718, Stock Based Compensation. Compensation expense is recognized as salaries and benefits in the consolidated statements of income. There were no additional options or warrants granted in 2014.

Merchant Fee Income: Merchant fee income represents fees received by the Bank related to credit card processing. These fees are recorded on the accrual basis of accounting.

Statement of Cash Flows: For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with a original maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, federal funds sold, and interest bearing deposits. Generally, federal funds are sold for one-day periods.

Changes in the valuation account of securities available-for-sale, including the deferred tax effects, and transfers of loans to OREO, are considered non-cash transactions for purposes of the statement of cash flows and are presented in detail in the notes to the consolidated financial statements.

Off-Balance-Sheet Financial Instruments: In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Recently Issued Accounting Pronouncements: The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In January 2014, the Financial Accounting Standards Board ("FASB") amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned ("OREO"). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Company for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company will apply the amendments prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for annual periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018. The Company will apply the guidance using a full retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2014, the FASB issued guidance which clarifies that performance targets associated with stock compensation should be treated as a performance condition and should not be reflected in the grant date fair value of the stock award. The amendments will be effective for the Company for fiscal years that begin after December 15, 2015. The Company will apply the guidance to stock awards with performance targets that are outstanding at the start of the first fiscal year in the financial statements and to all stock awards that are granted or modified after the effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2014, the FASB issued guidance that is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. In connection with preparing financial statements, management will need to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the organization's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will be effective for the Company for annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2014, the FASB issued guidance that gives private companies an accounting alternative that will no longer require separate recognition of intangible assets associated with non-compete agreements or certain customer-related intangible assets in a business combination. Generally, the guidance requires the decision to adopt the accounting alternative to be made upon the occurrence of the first transaction within the scope of the guidance in fiscal years beginning after December 15, 2015. Early application is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance that eliminated the concept of extraordinary items from United States Generally Accepted Accounting Standards ("U.S. GAAP"). Existing U.S. GAAP required that an entity separately classify, present, and disclose extraordinary events and transactions. The amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, however, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments may be applied either prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and Uncertainties: In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Reclassifications: Certain captions and amounts in the 2013 consolidated financial statements were reclassified to conform with the 2014 presentation.

Note 2. Cash and Due From Banks

The Company is required by regulation to maintain an average cash reserve balance based on a percentage of deposits. The average amount of the required cash reserve balances at December 31, 2014 and 2013 was approximately $661,000 and $517,000, respectively.

Note 3. Investment Securities

The amortized cost and estimated fair values of securities available-for-sale were:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 28,401,572	$ 15,259	$ 358,562	$ 28,058,269
Government-sponsored enterprises	1,000,000	–	276	999,724
SBA loan pools	10,271,534	2,045	129,332	10,144,247
Obligations of state and local governments	12,831,355	320,187	33,408	13,118,134
Total investment securities	**$ 52,504,461**	**$ 337,491**	**$ 521,578**	**$ 52,320,374**

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 29,519,015	$ 37,045	$ 1,085,735	$ 28,470,325
Government-sponsored enterprises	1,000,000	—	80,545	919,455
SBA loan pools	17,407,109	4,345	197,083	17,214,371
Obligations of state and local governments	28,928,976	4,308	2,518,665	26,414,619
Total investment securities	**$ 76,855,100**	**$ 45,698**	**$ 3,882,028**	**$ 73,018,770**

The following is a summary of maturities of securities available-for-sale as of December 31, 2014. The amortized cost and estimated fair values are based on the contractual maturity dates except for mortgage-backed securities.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 320,136	$ 322,864
Due after one year but within five years	9,143,213	9,151,540
Due after five years but within ten years	10,529,371	10,442,936
Due after ten years	4,110,169	4,344,765
Mortgage-backed securities	28,401,572	28,058,269
Total	**$ 52,504,461**	**$ 52,320,374**

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013.

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
Available-for-Sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 8,360,241	$ 106,120	$ 14,191,863	$ 252,442	$ 22,552,104	$ 358,562
Government-sponsored enterprises	—	—	999,724	276	999,724	276
SBA loan pools	—	—	9,053,885	129,332	9,053,885	129,332
Obligations of state and local governments	3,119,736	10,599	1,696,395	22,809	4,816,131	33,408
Total	**$ 11,479,977**	**$ 116,719**	**$ 25,941,867**	**$ 404,859**	**$ 37,421,844**	**$ 521,578**

	December 31, 2013					
	Less than 12 months		12 months or more		Total	
Available-for-Sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 21,970,324	$ 1,085,735	$ —	$ —	$ 21,970,324	$ 1,085,735
Government-sponsored enterprises	919,455	80,545	—	—	919,455	80,545
SBA loan pools	13,859,822	178,406	1,119,312	18,677	14,979,134	197,083
Obligations of state and local governments	22,460,146	2,214,417	2,565,949	304,248	25,026,095	2,518,665
Total	**$ 59,209,747**	**$ 3,559,103**	**$ 3,685,261**	**$ 322,925**	**$ 62,895,008**	**$ 3,882,028**

There were seventeen securities with a realized loss for greater than twelve months at December 31, 2014 and four for 2013. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other than temporary.

Gross proceeds from the sale of investment securities in 2014 and 2013 totaled $40,183,253 and $28,114,758 respectively. Sales of securities during 2014 resulted in gross realized gains of $338,989 and gross realized losses of $259,725, respectively. Sales of securities during 2013 resulted in gross realized gains of $161,745 and gross realized losses of $150,685, respectively.

At December 31, 2014, securities with book values of $6,716,741 and market values of $6,772,321 were pledged to secure federal funds lines of credit with other financial institutions. At December 31, 2013, securities with book values of $7,482,169 and market values of $7,349,707 were pledged to secure public deposits.

Note 4. Loans Receivable

Following is a summary of loans by major classification as of December 31:

	2014	2013
Commercial	$ 25,852,900	$ 29,593,118
Commercial real estate	150,807,184	130,691,850
Consumer	2,381,768	2,267,739
Consumer real estate	83,499,077	55,715,621
Total gross loans	262,540,929	218,268,328
Less unearned origination fees, net	254,715	231,482
Allowance for loan losses	2,624,797	2,394,588
Loans, net	**$ 259,661,417**	**$ 215,642,258**

The following table is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the year ending December 31, 2014:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 133,871	$ 435,909	$ 21,160	$ 196,182	$ 1,607,466	$ 2,394,588
Charge-offs	(129,900)	(49,985)	(9,484)	(103,420)	–	(292,789)
Recoveries	23,485	–	9,513	15,000	–	47,998
Provisions	52,555	156,185	(5,967)	100,750	171,477	475,000
Ending balance	**$ 80,011**	**$ 542,109**	**$ 15,222**	**$ 208,512**	**$ 1,778,943**	**$ 2,624,797**
Ending balances: Individually evaluated for impairment	$ –	$ 400,000	$ –	$ –	$ –	$ 400,000
Collectively evaluated for impairment	$ 80,011	$ 142,109	$ 15,222	$ 208,512	$ 1,778,943	$ 2,224,797
Loans receivable:						
Ending balance — total	**$ 25,852,900**	**$ 150,807,184**	**$ 2,381,768**	**$ 83,499,077**	**$ –**	**$ 262,540,929**
Ending balances: Individually evaluated for impairment	$ 280,729	$ 2,686,722	$ –	$ 81,962	$ –	$ 3,049,413
Collectively evaluated for impairment	$ 25,572,171	$ 148,120,462	$ 2,381,768	$ 83,471,115	$ –	$ 259,491,516

The following table is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the year ending December 31, 2013:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 213,665	$ 673,748	$ 21,204	$ 126,151	$ 1,271,590	$ 2,306,358
Charge-offs	(158,597)	(156,892)	(33,259)	(309,034)	–	(657,782)
Recoveries	15,000	–	100	912	–	16,012
Provisions	63,803	(80,947)	33,115	378,153	335,876	730,000
Ending balance	**$ 133,871**	**$ 435,909**	**$ 21,160**	**$ 196,182**	**$ 1,607,466**	**$ 2,394,588**
Ending balances: Individually evaluated for impairment	$ –	$ 400,000	$ –	$ –	$ –	$ 400,000
Collectively evaluated for impairment	$ 133,871	$ 35,909	$ 21,160	$ 196,182	$ 1,607,466	$ 1,994,588
Loans receivable:						
Ending balance — total	**$ 29,593,118**	**$ 130,691,850**	**$ 2,267,739**	**$ 55,715,621**	**$ –**	**$218,268,328**
Ending balances: Individually evaluated for impairment	$ 282,659	$ 2,683,518	$ –	$ 170,332	$ –	$ 3,136,509
Collectively evaluated for impairment	$ 29,310,459	$ 128,008,332	$ 2,267,739	$ 55,545,289	$ –	$215,131,819

Credit Quality Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

The following table is an analysis of our loan portfolio by credit quality indicators at December 31, 2014:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 25,814,994	$ 143,542,176	$ 2,315,792	$ 82,655,989	$ 251,205,261
Special Mention	37,906	2,758,682	–	560,388	3,356,976
Substandard	–	4,506,326	65,976	282,700	4,855,002
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**$ 25,852,900**	**$ 150,807,184**	**$ 2,381,768**	**$ 83,499,077**	**$ 262,540,929**

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2013:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 29,579,710	$ 123,336,934	$ 2,249,322	$ 55,344,551	$ 210,510,517
Special Mention	–	4,388,739	–	200,738	4,589,477
Substandard	13,408	2,934,942	18,417	170,332	3,137,099
Doubtful	–	31,235	–	–	31,235
Loss	–	–	–	–	–
Total	**$ 29,593,118**	**$ 130,691,850**	**$ 2,267,739**	**$ 55,715,621**	**$ 218,268,328**

The following is a past due aging analysis of our loan portfolio at December 31, 2014:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$ –	$ –	$ –	$ –	$ 25,852,900	$ 25,852,900	$ –
Commercial RE	–	332,972	–	332,972	150,474,212	150,807,184	–
Consumer	–	–	–	–	2,381,768	2,381,768	–
Consumer RE	–	–	–	–	83,499,077	83,499,077	–
Total	**$ –**	**$ 332,972**	**$ –**	**$ 332,972**	**$262,207,957**	**$ 262,540,929**	**$ –**

The following is a past due aging analysis of our loan portfolio at December 31, 2013:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
Commercial	$ –	$ –	$ –	$ –	$ 29,593,118	$ 29,593,118	$ –
Commercial RE	–	–	342,764	342,764	130,349,086	130,691,850	–
Consumer	–	–	–	–	2,267,739	2,267,739	–
Consumer RE	76,987	–	–	76,987	55,638,634	55,715,621	–
Total	**$ 76,987**	**$ –**	**$ 342,764**	**$ 419,751**	**$ 217,848,577**	**$ 218,268,328**	**$ –**

The following table is an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ 280,729	$ 280,729	$ –	$ 282,653	$ 10,654
Commercial real estate	744,708	744,708	–	798,873	39,036
Consumer – other	–	–	–	–	–
Consumer – real estate	81,962	81,962	–	87,185	617
With an allowance recorded:					
Commercial	$ –	$ –	$ –	$ –	$ –
Commercial real estate	1,942,014	1,942,014	400,000	1,889,884	78,351
Consumer – other	–	–	–	–	–
Consumer – real estate	–	–	–	–	–
Total:					
Commercial	$ 280,729	$ 280,729	$ –	$ 282,653	$ 10,654
Commercial real estate	2,686,722	2,686,722	400,000	2,688,757	117,387
Consumer – other	–	–	–	–	–
Consumer – real estate	81,962	81,962	–	87,185	617
Total	**$ 3,049,413**	**$ 3,049,413**	**$ 400,000**	**$ 3,058,595**	**$ 128,658**

The following table is an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ 282,659	$ 283,875	$ –	$ 235,629	$ 1,216
Commercial real estate	693,127	1,333,158	–	724,778	17,437
Consumer – other	–	–	–	–	–
Consumer – real estate	170,332	170,332	–	185,074	7,151
With an allowance recorded:					
Commercial	$ –	$ –	$ –	$ –	$ –
Commercial real estate	1,990,391	1,990,391	400,000	1,997,977	39,365
Consumer – other	–	–	–	–	–
Consumer – real estate	–	–	–	–	–
Total:					
Commercial	$ 282,659	$ 283,875	$ –	$ 235,629	$ 1,216
Commercial real estate	2,683,518	3,323,549	400,000	2,722,755	56,802
Consumer – other	–	–	–	–	–
Consumer – real estate	170,332	170,332	–	185,074	7,151
Total	**$ 3,136,509**	**$ 3,777,756**	**$ 400,000**	**$ 3,143,458**	**$ 65,159**

The following table is an analysis of our nonaccrual loan portfolio recorded at December 31, 2014 and 2013:

	2014	2013
Commercial	$ –	$ –
Commercial real estate	332,972	625,423
Consumer	–	–
Consumer real estate	–	76,987
Total	**$ 332,972**	**$ 702,410**

Troubled Debt Restructurings

The following table summarizes the carrying balance of troubled debt restructurings (TDRs) at December 31, 2014 and 2013:

	2014	2013
Performing TDRs	$ 65,976	$ 377,220
Nonperforming TDRs	–	–
Total	**$ 65,976**	**$ 377,200**

Loans classified as TDRs may be removed from this status for disclosure purposes after a specified period of time if the restructured agreement specifies an interest rate equal to or greater than the rate that the lender was willing to accept at the time of the restructuring for a new loan with comparable risk, and the loan is performing in accordance with the terms specified by the restructured agreement.

The following table is an analysis of TDRs identified during 2014:

		For the year ended December 31, 2014	
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	–	$ –	$ –
Commercial real estate	–	–	–
Consumer	1	65,976	65,976
Consumer real estate	–	–	–
Total	**1**	**$ 65,976**	**$ 65,976**

The following is an analysis of TDRs identified during 2013:

		For the year ended December 31, 2013	
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	$ 283,875	$ 283,875
Commercial real estate	–	–	–
Consumer	–	–	–
Consumer real estate	1	93,345	93,345
Total	**2**	**$ 377,220**	**$ 377,220**

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by market analysis and present value calculations. No defaults on TDRs were incurred during 2014 or 2013.

Note 5. Premises, Furniture and Equipment

Premises, furniture and equipment is summarized as follows as of December 31:

	2014	2013
Land	$ 5,421,993	$ 5,427,993
Buildings and leasehold improvements	10,829,941	8,603,158
Furniture and equipment	2,780,345	2,293,260
Software	575,500	433,483
Automobile	40,909	44,765
Construction in progress	163,032	302,502
Total	19,811,720	17,105,161
Less, accumulated depreciation	3,036,211	2,457,058
Premises, furniture and equipment, net	**$ 16,775,509**	**$ 14,648,103**

Depreciation expense for the years ended December 31, 2014 and 2013 was $579,153 and $516,794, respectively.

Note 6. Other Real Estate Owned

Activity in other real estate owned is summarized as follows for the years ended December 31:

	2014	2013
Balance, beginning of year	$ 40,000	$ 407,825
Additions	256,346	300,000
Proceeds from sales	(184,581)	(580,846)
Write downs	(10,000)	(86,979)
Balance, end of year	**$ 101,765**	**$ 40,000**

Note 7. Deposits

At December 31, 2014, the scheduled maturities of time deposits are as follows:

2015	$ 32,549,720
2016	7,208,314
2017	6,051,907
2018	4,397,837
Total	**$ 50,207,778**

The bank had brokered deposits of $15,613,000 and $17,613,000 as of December 31, 2014 and 2013, respectively.

Note 8. Note Payable

On December 20, 2013, the parent company obtained a $4,000,000 line of credit from an unrelated financial institution. The line bears a fixed rate of interest at 5% and matures on January 5, 2016. At December 31, 2014 and 2013, the amount outstanding on the parent company's line of credit was $1,271,000 and $0, respectively. Interest payable as of December 31, 2014 was $12,500. The proceeds of the loan are to be used for general corporate purposes.

Note 9. Advances from Federal Home Loan Bank

The balance for advances from the Federal Home Loan Bank (FHLB) at December 31, 2013 was $8,140,000. The balance consisted of two advances: $5,000,000 that matured in January 2014 and $3,140,000 that matured in April 2014.

Pursuant to collateral agreements with the FHLB, advances are secured by stock in the FHLB and by qualifying first mortgage, home equity lines of credit and commercial real estate loans. As of December 31, 2014, there were no advances from FHLB outstanding. As of December 31, 2013, the pledged collateral totaled approximately $23 million. Certain advances are subject to prepayment penalties.

Note 10. Stock Compensation Plan

Under the terms of employment agreements with the Company's Chief Executive Officer (CEO), President, and Chief Financial Officer (CFO), stock options were granted to each as part of their compensation and benefits package. Under these agreements, the CEO was granted options to purchase common stock equal to 5% of the shares sold in the offering, or 151,315 options as adjusted for the Company's 2012 stock dividend. The President and CFO were each granted options to purchase common stock equal to 3% of the shares sold in the offering or a total of 90,789 options, as adjusted for the Company's 2012 stock dividend. These options vest ratably over five years. The options have an exercise price of $9.09 per share and terminate ten years after the date of grant.

The Company also established the 2007 Stock Incentive Plan (the Plan) which provides for the granting of options to employees. The Company granted a total of 344,442 stock options, as adjusted for the Company's 2012 stock dividends, to various employees under the Plan, including the options granted above to executive officers. These options have a vesting and expected term of five years and an exercise price of $9.09 per share and terminate ten years after the date of grant. During 2013, the Company granted a total of 15,500 stock options. These options have a vesting and expected term of five years. These options have an exercise price of $10.50 and terminate ten years after the date of the grant.

A summary of the status of the Company's stock options, and changes during the period are presented below:

	2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	359,942	$ 9.15	344,442	$ 9.09
Granted	–	–	15,500	10.50
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding and exercisable at end of year	**359,942**	**$ 9.15**	**359,942**	**$ 9.15**

The fair value of options is estimated at the date of grant using the Black-Sholes pricing model and expensed over the options' vesting period. The following weighted-average assumptions were used in valuing options issued during 2013:

	Weighted-Average Assumptions
Dividend yield	0.00%
Expected life	5 years
Expected volatility	7.04%
Risk-free interest rate	1.61%

There were 359,942 exercisable options at December 31, 2014 with a weighted average exercise price of $9.15. There was no aggregate intrinsic value of these options at December 31, 2014. Total compensation expense related to stock options was $2,908 and $727 for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014, there was $13,008 of total unrecognized compensation cost related to nonvested stock options.

The following table summarizes information about stock options outstanding under the Company's Plan at December 31, 2014 and 2013:

	2014	2013
Number of options	359,942	359,942
Weighted average remaining life	3 years	4 years
Weighted average exercise price	$ 9.15	$ 9.15
High exercise price	$ 10.50	$ 10.50
Low exercise price	$ 9.09	$ 9.09

The following table shows a summary of the status of the Company's nonvested shares as of December 31, 2014 and 2013:

	2014		2013	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested at the beginning of year	15,500	$ 1.12	—	$ —
Granted	—	—	15,500	1.12
Vested	3,100	1.12	—	—
Forfeited	—	—	—	—
Nonvested at end of year	**12,400**	**$ 1.12**	**15,500**	**$ 1.12**

Note 11. Stock Warrants

The organizers of the Company received stock warrants giving them the right to purchase one share of common stock for every share they purchased in the initial offering of the Company's common stock up to 11,000 shares at a price of $9.09 per share. The warrants vest ratably over a five-year period and terminate ten years after date of grant. Warrants held by directors of the Company will expire 90 days after the director ceases to be a director or officer of the Company (365 days if due to death or disability).

No warrants were issued or cancelled in 2014. At December 31, 2014, there were 99,000 outstanding and exercisable. In 2013, 11,000 warrants were exercised, leaving a total of 99,000 outstanding and exercisable as of December 31, 2013. There was no compensation expense related to warrants for the years ended December 31, 2014 and 2013, respectively.

Note 12. Income Taxes

Income tax expense (benefit) is summarized as follows for the years ending December 31:

	2014	2013
Current income tax expense (benefit):		
Federal	$ (86,962)	$ —
State	45,394	96,275
Total	(41,568)	96,275
Deferred income tax expense:		
Federal	$ 535,617	$ 460,558
State	(61,166)	(109,660)
Total	474,451	350,898
Income tax expense	**$ 432,883**	**$ 447,173**

The gross amounts of deferred tax assets and deferred tax liabilities are as follows as of December 31:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 568,474	$ 498,458
Net operating loss carryforward	1,194,644	1,508,672
Organization and start-up costs	131,797	148,622
Federal and state credits	322,960	259,132
Unrealized loss on securities available-for-sale	44,180	920,718
Other	69,497	39,425
Total deferred tax assets	2,331,552	3,375,027
Valuation allowance	(5,851)	(5,233)
Net deferred tax assets	**$ 2,325,701**	**$ 3,369,794**
Deferred tax liabilities:		
Accumulated depreciation	1,536,278	1,235,100
Loan origination costs	72,449	54,376
Prepaid expenses	24,129	36,484
Total deferred tax liabilities	1,632,856	1,325,960
Net deferred tax assets	**$ 692,845**	**$ 2,043,834**

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. Management's judgment is based on estimates concerning future income earned and positive earnings for the years ended December 31, 2014 and 2013. Management has concluded that sufficient positive evidence exists to overcome any and all negative evidence in order to meet the "more likely than not standard" regarding the realization of the net deferred tax assets. As of December 31, 2014 and 2013, a small valuation allowance in the amount of $5,851 and $5,233, respectively, remains for state holding company losses. Net deferred tax assets are recorded in other assets on the Company's consolidated balance sheet.

The Company has a federal net operating loss carryforward for income tax purposes of $3,499,410 and $4,425,218 as of December 31, 2014 and 2013, respectively. The Company has a state net operating loss carryforward of $146,804 and $124,186 as of December 31, 2014 and 2013, respectively. These net operating loss carryforwards begin to expire in the year 2028.

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 34% to income before income taxes follows for the years ended December 31, 2014 and 2013:

	2014	2013
Tax expense at statutory rate	$ 828,614	$ 711,220
State income tax, net of federal income tax benefit	(10,410)	63,542
Change in valuation allowance	618	1,068
Cash surrender value of life insurance	(54,456)	(59,431)
Other municipal income	(241,271)	(216,593)
Other	(90,212)	(52,633)
Income tax expense	**$ 432,883**	**$ 447,173**

Tax returns for 2011 and subsequent years are subject to examination by taxing authorities. The Company has analyzed the tax positions taken or expected to be taken on its tax returns and concluded it has no liability related to uncertain tax positions in accordance with ASC Topic 740.

Note 13. Leases

The Bank has entered into agreements to lease various office facilities under non-cancellable operating lease agreements. Lease expense totaled $147,929 and $82,122 for the years ended December 31, 2014 and 2013, respectively. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year, for each of the next five years and thereafter in the aggregate are:

2015	$ 65,418
2016	188,418
2017	191,418
2018	182,793
2019 and thereafter	270,168
Total	**$ 898,213**

The Company is leasing a portion of its Murrells Inlet location to unrelated tenants. Lease income generated from these tenants totaled $61,950 and $56,998 during the years ended December 31, 2014 and 2013, respectively.

Note 14. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility. As of December 31, 2014 and 2013, the Company had related party loans totaling $8,470,918 and $9,530,718, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately $20,315,217 and $21,857,225 at December 31, 2014 and 2013, respectively.

Note 15. Commitments and Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Company.

Note 16. Income Per Share

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted income per share is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock warrants and stock options. Retroactive recognition has been given for the effects of all stock dividends. The effect from stock options on incremental shares from the assumed conversions for basic income per share and diluted income per share are presented below:

	2014	2013
Income per common share – basic computation:		
Net income	$ 2,004,218	$ 1,644,650
Average common shares outstanding – basic	3,038,232	3,032,162
Basic income per common share	$ 0.66	$ 0.54
Income per common share – diluted computation:		
Net income	$ 2,004,218	$ 1,644,656
Average common shares outstanding – basic	3,038,232	3,032,162
Incremental shares from assumed conversions:		
Stock options and warrants	60,061	43,002
Average common shares outstanding – diluted	3,098,293	3,075,164
Diluted income per common share	$ 0.65	$ 0.53

Note 17. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct adverse material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of Tier 1 and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital.

The Bank is also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. Only the strongest banks are allowed to maintain capital at the minimum requirement of 3%. All others are subject to maintaining ratios 1% to 2% above the minimum.

As of December 31, 2014, management believes it is categorized as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's category.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements:

	Actual		For capital adequacy purposes Minimum		To be well-capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total capital (to risk weighted assets)	$ 32,043,000	11.30%	$ 22,676,800	8.00%	$ 28,346,000	10.00%
Tier 1 capital (to risk weighted assets)	29,418,000	10.38%	11,338,400	4.00%	17,007,600	6.00%
Tier 1 capital (to average assets)	29,418,000	8.53%	13,798,920	4.00%	17,249,000	5.00%
December 31, 2013						
Total capital (to risk weighted assets)	$ 29,086,000	11.91%	$ 19,537,040	8.00%	$ 24,421,300	10.00%
Tier 1 capital (to risk weighted assets)	26,691,000	10.93%	9,768,520	4.00%	14,652,780	6.00%
Tier 1 capital (to average assets)	26,691,000	8.61%	12,402,320	4.00%	15,502,900	5.00%

Note 18. Unused Lines of Credit

As of December 31, 2014, the Company had unused lines of credit to purchase federal funds from unrelated banks totaling $32,200,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. As of December 31, 2014 and 2013, there were no borrowings on these lines.

The Company also has an additional line of credit with the Federal Home Loan Bank to borrow funds, subject to a pledge of qualified collateral. As of December 31, 2014, the Company had no borrowings on this line. As of December 31, 2013, the Company had borrowed $8,140,000 on this line. The Company had approximately $24,042,000 and $14,300,000 of available funds with the Federal Home Loan Bank as of December 31, 2014 and 2013, respectively.

Note 19. Shareholders' Equity

Stock Offering – On September 16, 2014, the Company initiated a stock offering in the form of a Private Placement Memorandum. The Company was offering up to 909,091 shares of its common stock at a purchase price of $11.00 per share for an aggregate offering amount of up to $10 million. The offering was set to expire on December 31, 2014, but may be terminated or extended at the discretion of the Company. As of December 31, 2014, the Company had received gross proceeds of $3,681,997 and incurred offering costs of $363,872. This resulted in the issuance of 334,727 shares. However, the Company elected to extend the offering into 2015.

The ability of South Atlantic Bancshares, Inc. and Subsidiary to pay cash dividends is dependent upon receiving cash in the form of dividends from its banking subsidiary. However, certain restrictions exist regarding the ability of the subsidiary to transfer funds to South Atlantic Bancshares, Inc. and Subsidiary. The approval of the South Carolina Board of Financial Institutions is required to pay dividends in excess of the Bank's net profits (as defined) for the current year plus retained net profits (as defined) for the preceding two years, less any required transfers to surplus.

Note 20. Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Collateral held for commitments to extend credit and letters of credit varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

The following table summarizes the Bank's off-balance-sheet financial instruments at December 31, 2014 and 2013 whose contract amounts represent credit risk:

	2014	2013
Commitments to extend credit	$ 38,063,000	$ 27,505,000
Letters of credit	2,820,102	1,737,890
Total	**$ 40,883,102**	**$ 29,242,890**

Note 21. Fair Value of Financial Instruments

Accounting standards require disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

The accounting standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries, and money market funds.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

Investment Securities Available-for-Sale: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Mortgage Loans Held-for-Sale: The fair values of mortgages held for sale are derived from an active market of similar loans and as such are classified as Level 2 in the fair value hierarchy.

The tables following present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2014 Total	Level 1	Level 2	Level 3
Government-sponsored enterprises	$ 999,724	$ –	$ 999,724	$ –
Obligations of state and local governments	13,118,134	–	13,118,134	–
Mortgage-backed securities	28,058,269	–	28,058,269	–
SBA loan pools	10,144,247	–	10,144,247	–
Loans held-for-sale	360,035	–	360,035	–
Total	**$ 52,320,374**	**$ –**	**$ 52,320,374**	**$ –**

	December 31, 2013 Total	Level 1	Level 2	Level 3
Government-sponsored enterprises	$ 919,455	$ –	$ 919,455	$ –
Obligations of state and local governments	26,414,619	–	26,414,619	–
Mortgage-backed securities	28,470,325	–	28,470,325	–
SBA loan pools	17,214,371	–	17,214,371	–
Loans held-for-sale	137,281	–	137,281	–
Total	**$ 73,156,051**	**$ –**	**$ 73,156,051**	**$ –**

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a non-recurring basis.

Loans: The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2014 and 2013 substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Other Real Estate Owned: Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company recorded the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) as of December 31, 2014 and 2013, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2014 and 2013.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 101,765	$ –	$ 101,765	$ –
Impaired loans:				
Commercial	280,729	–	280,729	–
Commercial real estate	2,286,722	–	2,286,722	–
Consumer	–	–	–	–
Consumer real estate	81,962	–	81,962	–
Total impaired loans	2,649,413	–	2,649,413	–
Total	**$ 2,751,178**	**$ –**	**$ 7,751,178**	**$ –**

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 40,000	$ –	$ 40,000	$ –
Impaired loans:				
Commercial	282,659	–	282,659	–
Commercial real estate	2,283,518	–	2,283,518	–
Consumer	–	–	–	–
Consumer real estate	170,332	–	170,332	–
Total impaired loans	2,736,509	–	2,736,509	–
Total	**$ 2,776,509**	**$ –**	**$ 2,776,509**	**$ –**

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Cash and Due from Banks: The carrying amount is a reasonable estimate of fair value.

Federal Funds Sold and Interest-Bearing Deposits: Federal funds are sold for a term of one day, and the carrying amount approximates the fair value.

Securities Available-for-Sale: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Nonmarketable Equity Securities: The carrying value of these securities approximates the fair value since no ready market exists for the stocks.

Mortgage Loans Held-for-Sale: The carrying value of mortgage loans held for sale approximates fair value.

Loans Receivable: For certain categories of loans, such as variable rate loans which are repriced frequently and have no significant change in credit risk, fair values are based on the carrying amounts. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with contractual terms of the loan agreement are considered impaired. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Bank-Owned Life Insurance: The carrying amount is a reasonable estimate of fair value.

Deposits: The fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The fair values of certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Note Payable: The carrying amount is a reasonable estimate of fair value.

Advances from Federal Home Loan Bank: For disclosure purposes, the fair value of the FHLB fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements. The carrying value of advances from Federal Home Loan Bank approximates fair value.

Accrued Interest Receivable and Payable: The carrying value of these instruments is a reasonable estimate of fair value.

Off-Balance Sheet Financial Instruments: Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standing.

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2014 and 2013 are as follows:

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 2,553,286	$ 2,553,286	$ 1,160,068	$ 1,160,068
Federal funds sold and interest-bearing deposits	22,079,446	22,079,446	3,515,627	3,515,627
Securities available-for-sale	52,320,374	52,320,374	73,018,770	73,018,770
Nonmarketable equity securities	286,300	286,300	708,300	708,300
Loans held-for-sale	360,035	360,035	137,281	137,281
Loans receivable	262,286,214	261,401,685	218,036,846	216,166,672
Bank-owned life insurance	5,530,376	5,530,376	5,370,213	5,370,218
Accrued interest receivable	1,375,907	1,375,907	1,439,689	1,439,689
Financial liabilities:				
Demand deposit, interest-bearing transaction, and savings accounts	276,386,174	276,386,174	234,628,703	234,628,703
Certificates of deposit and other time deposits	50,207,778	50,207,778	50,889,904	43,582,764
Note payable	1,271,000	1,271,000	—	—
Advances from Federal Home Loan Bank	—	—	8,140,000	8,112,065
Accrued interest payable	26,484	26,484	14,991	14,991
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Off-balance sheet financial instruments:				
Commitments to extend credit	$ 38,063,000	$ —	$ 27,505,000	$ —
Letters of credit	2,820,102	—	1,737,890	—

Note 22. South Atlantic Bancshares, Inc. and Subsidiary (Parent Company Only)

Following is condensed financial information of South Atlantic Bancshares, Inc. (parent company only) as of and for the years ended December 31:

Condensed Balance Sheets

	December 31, 2014	December 31, 2013
Assets:		
Cash	$ 3,520,143	$ 318,498
Investment in bank subsidiary	29,278,005	23,774,794
Other assets	782,147	49,354
Total assets	**$ 33,580,295**	**$ 24,142,646**
Liabilities and shareholders' equity:		
Note payable	$ 1,271,000	$ —
Accrued expenses	67,500	1,806
Shareholders' equity	32,241,795	24,140,840
Total liabilities and shareholders' equity	**$ 33,580,295**	**$ 24,142,646**

Condensed Statements of Income

	2014	2013
Income	$ —	$ —
Expenses:		
Salaries and benefits	2,908	15,727
Other	18,725	17,343
Total	21,633	33,070
Loss before income taxes and equity in undistributed income of banking subsidiary:	(21,633)	(33,070)
Income tax benefit	8,344	18,171
Equity in undistributed income of banking subsidiary	2,017,507	1,659,549
Net income	**$ 2,004,218**	**$ 1,644,650**

Condensed Statements of Cash Flows

	2014	2013
Operating activities:		
Net income	$ 2,004,218	$ 1,644,650
Adjustments to reconcile net income to net cash used by operating activities:		
Equity in undistributed income of bank subsidiary	(2,017,507)	(1,659,549)
Stock and warrant compensation expense	2,908	727
Proceeds from exercise of warrants	—	99,990
Increase in investment in bank	(710,000)	(250,000)
Increase in accrued expenses and other liabilities	65,695	—
Increase in other assets	(732,793)	(11,866)
Net cash used by operating activities	(1,387,479)	(176,048)
Financing activities:		
Proceeds from stock offering, net	3,318,124	—
Proceeds from notes payable	1,271,000	—
Net cash provided in financing activities	4,589,124	—
Net increase (decrease) in cash and cash equivalents	3,201,645	(176,048)
Cash, beginning of year	318,498	494,546
Cash, end of year	**$ 3,520,143**	**$ 318,498**

Note 23. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 10, 2015, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

As discussed in Note 19, the Company extended its stock offering. While additional commitments have been made, the offering has not closed.

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Chairman
Chief Executive Officer

R. Scott Plyler
President

Richard N. Burch
Executive Vice President
Chief Financial Officer

C. Alec Elmore
Executive Vice President
Chief Credit Officer

Mary Jo Rogers
Executive Vice President
Grand Strand Regional Executive

Accounting
Melissa K. Downs-High
Senior Vice President
Comptroller

Kathy M. Doane
Banking Officer
Senior Financial Accountant

Administration
Candace L. Cherry
Senior Vice President
Corporate Assistant

Deposit Operations
Tiffany P. Suggs
Senior Vice President
Director of Branch & Deposit Operations

Courtney B. Hicks
Assistant Vice President
Merchant Operations Manager

Yolonda F. Bryant
Banking Officer
Deposit Operations Specialist

Amy B. Stubbs
Banking Officer
Deposit Operations Specialist

Loan Operations
Anne B. Cote
Senior Vice President
Director of Loan Operations

Karen M. Atwood
Vice President
Loan Documentation Manager

Deborah B. Atkins
Assistant Vice President
Loan Administration Specialist

Shirley Y. Kulcsar
Assistant Vice President
Loan Documentation Specialist

Marketing
Barbara W. Marshall
Senior Vice President
Director of Marketing

Merchant Services
Donald G. Kyzer
Senior Vice President
Director of Merchant Card Services

Mortgage Services
Travis A. Minter
Senior Vice President
Director of Mortgage Loans

Susan O. Burton
Vice President
Mortgage Loan Operations Manager

Adam M. Paskanik
Vice President
Mortgage Loan Officer

Donna L. Spitzer
Assistant Vice President
Mortgage Processor/Underwriter

Branch Personnel
Myrtle Beach
Paul E. Peeples
Senior Vice President
Myrtle Beach Regional Executive

Michelle A. Coletta
Vice President
Retail Business Development Officer
Branch Manager

Alex L. Wetherell
Assistant Vice President
Credit Analyst

Mandy G. Edge
Banking Officer
Assistant Branch Manager

Murrells Inlet
W. David Rhodes, IV
Senior Vice President
South Strand Regional Executive

Denise F. Brown
Senior Vice President
Retail Market Sales Leader
Branch Manager

Leah M. Rodriguez
Banking Officer
Assistant Branch Manager

North Myrtle Beach
John L. Breeden, III
Senior Vice President
North Strand Regional Executive

Allison A. Cabaniss
Vice President
Retail Business Development Officer
Branch Manager

Pawleys Island
Drew S. Johnson
Senior Vice President
Waccamaw Neck Regional Executive

Donna M. Murphy
Vice President
Retail Business Development Officer
Branch Manager

Georgetown
Daniel F. Siau
Senior Vice President
Georgetown City Regional Executive

Mary I. Lee
Vice President
Retail Business Development Officer
Branch Manager

Yvette F. Morgan
Assistant Vice President
Loan Assistant

Mount Pleasant
Kenneth M. Pickens
Senior Vice President
Charleston Regional Executive

Brian J. Michel
Vice President
Commercial Lender

Kurt S. Seguer
Vice President
Commercial Lender

Peter M. Insabella
Vice President
Mortgage Loan Officer

Christy P. Chumney
Assistant Vice President
Loan Assistant

Cari L. Henderson
Assistant Vice President
Retail Business Development Officer
Branch Manager

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1801 Highway 17 South
North Myrtle Beach, SC 29582
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Murrells Inlet
11019 Tournament Boulevard
Murrells Inlet, SC 29576
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Pawleys Island
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Pawleys Island, SC 29585
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Co-Owner and Operator
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Trial Lawyer and Partner
The Brittain Law Firm

Richard N. Burch
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Chief Financial Officer
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South Atlantic Bank

South Atlantic Bancshares, Inc.

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