South Atlantic Bancshares, Inc.

Myrtle Beach, South Carolina

2015

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 listed on the OTCQX® Best Market under the symbol SABK. To find current financial disclosures and real-time level 2 quotes for South Atlantic Bancshares, Inc., visit www.otcmarkets.com and enter the symbol SABK. As of December 31, 2015, there were 467 shareholders of record.

Annual Meeting

The Annual Meeting of Shareholders of South Atlantic Bancshares, Inc. will take place on Tuesday, April 19, 2016, at 5:30 p.m. at the bank's headquarters at 630 29th Avenue North, Myrtle Beach, South Carolina, 29577.

Registrar/Transfer Agent

Direct Transfer LLC
500 Perimeter Park Drive, Suite D
Morrisville, NC 27560
E-mail: transfer@issuerdirect.com
919.744.2722

Corporate Counsel

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

Independent Accountants

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

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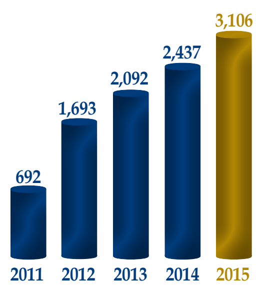
Selected Financial Highlights

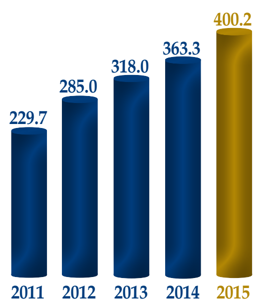
	For the Year Ended 2015	For the Year Ended 2014	For the Year Ended 2013	For the Year Ended 2012	For the Year Ended 2011
Year End Balances (in thousands)					
Total assets	$ 400,218	$ 363,348	$ 318,057	$ 284,988	$ 229,725
Investment securities	52,784	52,607	73,727	59,455	37,769
Loans, net of unearned income (total loans)	313,988	262,646	218,174	189,979	169,638
Deposits	337,362	326,594	285,519	259,338	198,086
Shareholders’ equity	35,645	32,242	24,141	25,359	22,937
Average Balances (in thousands)					
Total assets	$ 374,291	$ 341,288	$ 307,746	$ 263,886	$ 227,637
Earning assets	348,172	318,590	281,908	243,927	213,033
Investment securities	51,238	67,306	69,880	49,505	34,829
Loans, net of unearned income (total loans)	279,810	239,797	199,817	173,624	164,188
Deposits	335,849	308,929	281,306	238,513	203,909
Shareholders’ equity	33,961	26,925	24,904	24,092	21,843
Earnings Breakdown (in thousands)					
Total interest income	$ 14,137	$ 13,012	$ 11,291	$ 10,002	$ 9,496
Total interest expense	1,161	1,188	1,311	1,620	2,144
Net interest income	12,976	11,825	9,980	8,382	7,352
Total noninterest income	2,633	1,705	2,146	2,704	841
Total noninterest expense	12,272	10,618	9,305	8,063	6,192
Provision for loan losses	230	475	730	1,330	1,310
Income before taxes	3,106	2,437	2,092	1,693	692
Taxes	865	433	447	(869)	(463)
Net income	2,241	2,004	1,645	2,562	1,155
Diluted earnings per share	0.63	0.59	0.46	0.72	0.33
Selected % Increases					
Total assets	10.15%	14.24%	11.60%	24.06%	12.11%
Total interest earning assets	10.58%	14.04%	11.93%	25.58%	10.44%
Total loans	19.55%	20.38%	14.84%	11.99%	4.14%
Total deposits	3.30%	14.39%	10.10%	30.92%	10.74%
Interest income	8.64%	15.24%	12.89%	5.33%	19.38%
Interest expense	(2.21)%	(9.40)%	(19.09)%	(24.44)%	(23.22)%
Noninterest income	54.37%	(14.54)%	(26.19)%	221.37%	55.84%
Noninterest expense	15.58%	15.99%	13.54%	30.22%	10.36%
Net income	11.81%	21.90%	(35.08)%*	121.75%	222.28%
Selected Ratios					
Return on average assets	0.59%	0.55%	0.53%	0.97%	0.30%
Return on average equity	6.60%	7.44%	6.60%	10.63%	3.17%
Interest income to total average assets	4.06%	3.81%	3.67%	3.79%	4.17%
Interest expense to total average assets	0.33%	0.35%	0.43%	0.61%	0.94%
Net interest income to total average assets	3.73%	3.46%	3.24%	3.18%	3.23%
Loan loss reserve to total loans	0.90%	1.00%	1.10%	1.21%	1.39%
Nonperforming assets to total average assets	0.12%	0.13%	0.24%	0.77%	0.58%
Net charge-offs to total average assets	0.01%	0.07%	0.08%	0.52%	0.41%
Net interest margin	3.80%	3.79%	3.56%	3.43%	3.40%

**compared to 2012 net income which was not taxable. Company became fully taxable in 2013.*

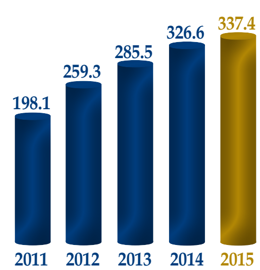
Income Before Taxes
$ in thousands



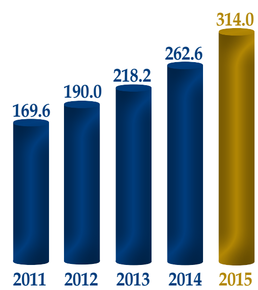
Total Assets
$ in millions



Total Deposits
$ in millions



Total Loans
$ in millions



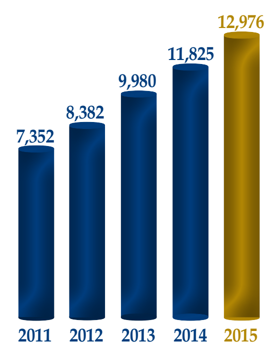
To our Shareholders and Friends:

For South Atlantic Bancshares, Inc. (the company) and its subsidiary South Atlantic Bank (the bank), 2015 was a year of outstanding achievement. The bank's financial performance continued to improve and the company completed several goals that will set the stage for future growth and expansion.

K. Wayne Wicker
Chairman
Chief Executive Officer

Net Income Rises Nearly 12 Percent

Net Interest Income
$ in thousands



The company completed its fifth year of profitability, reporting net income of $2,240,817 or $0.63 per diluted share for the year ended December 31, 2015. These figures represent an 11.8 percent increase when compared to the $2,004,218 or $0.59 per diluted share reported for the same period a year ago.

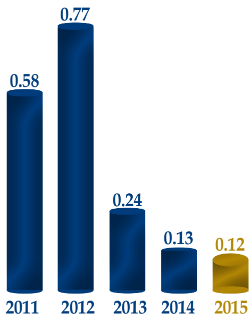
Pleasing growth in the loan portfolio, along with solid performances from the mortgage loan and merchant services areas of the bank, helped our bottom line in 2015. Noninterest income grew 54.5 percent year over year, while net interest income increased 9.7 percent.

Economic conditions, especially in the South Strand and Charleston markets, have improved which fueled new projects and expansion. Nationwide, analysis of key economic indicators led the Federal Reserve to raise the Fed Funds rate by 25 basis points in mid-December, but with global economic conditions now mixed, additional rate hikes in 2016 are no longer a foregone conclusion. Because numerous loans in the portfolio move with the Prime rate, we may see some further improvement in the net interest margin. The margin flirted briefly with the 4 percent mark in the first quarter and ended the year at 3.8 percent.

Loan Growth and Credit Quality

The bank's loan portfolio exceeded the $300 million mark for the first time in its history in 2015. Total loans grew 19.6 percent, to $314.0 million at December 31, 2015, from the $262.6 million reported for the same period a year ago. We were able to achieve this level of growth in very competitive markets due to officer calling efforts and the level of service that our community bank provides. Decisions are made locally by loan officers who know the markets and understand the seasonality of tourism-driven economies. These intangibles are just as important as the rate and terms to business owners who count on the bank as a trusted partner.

Nonperforming Assets to Total Average Assets *(%)*



As our officers work to grow the portfolio, they remain equally focused on maintaining strong credit quality. Credit quality is an important barometer of a bank's overall health and we will not sacrifice quality for growth in the portfolio. The bank's philosophy has always been to focus on controlled growth for success. Our results demonstrate this commitment as credit quality continues to be outstanding in all our markets, with net charge-offs to average total assets of 0.01 percent and no past dues for 2015. The nonperforming assets to total average assets ratio continues to decline and is well ahead of our peer group banks.

Capital

In 2015, the company completed a private placement offering for shares of its common stock and raised $4.6 million to be used for general corporate purposes and to support the growth and capital position of the bank. The raise bolstered our already strong capital ratios and we are considered "well-capitalized" by regulatory standards.

In other news, the company's common stock is now listed on the OTCQX® Best Market under the symbol SABK. The OTCQX is a great fit for our company because it improves our visibility to investors interested in high-performing community banks, while providing a source of liquidity to current shareholders. Our listing provides a shareholder friendly trading experience along with easy access to financial reports and other company news.

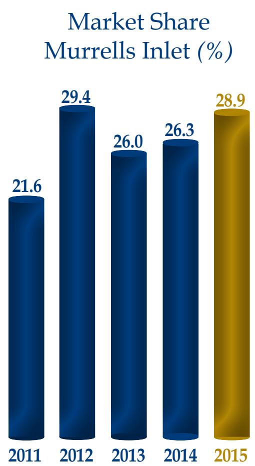
A 10 percent stock dividend was paid on December 29 to shareholders of record on November 28, and provided 10 shares of common stock for each 100 shares held. The dividend is the second in our history and commemorated the bank's eighth anniversary in November 2015.

New Offices

With new offices in Pawleys Island and North Myrtle Beach, and plans announced for a permanent location in Mount Pleasant, the bank has solidified its coastal footprint. The new building in Pawleys Island replaces our original location at Waverly Place and is a one-story version of our Myrtle Beach and Murrells Inlet offices. In North Myrtle Beach, we renovated an existing bank building to meet our needs. We also announced plans to build a new facility in Mount Pleasant on Johnnie Dodds Boulevard, and will move from our current location on Queensborough Boulevard when the office is completed in mid 2017. The 8,000 square foot, two-story facility will house the full-service banking office on the first floor and the second floor will be leased to tenants. We expect to begin construction late in the first quarter 2016.

North Myrtle Beach Ribbon Cutting

Market Share



The bank continues to make strides in market share in Horry and Georgetown counties on the strength of its five locations in this region. South Atlantic Bank ranks eighth out of 23 banks – and the banks holding the first seven places on the list have at least double the number of branches. The bank's Murrells Inlet office is number one in its market, and our Pawleys Island office placed fifth in just its third year of existence. Newer markets including Georgetown and Mount Pleasant are making steady progress as well. Our success can be attributed to our branch plan, which considers expansion to new markets only when we are ready to hit the ground running, with strong bankers and great locations in place.

Recognition

For the third time in the past four years, South Atlantic Bank was named a "Roaring Twenties" winner by SC Biz News. This honor recognizes the state's 20 best-performing companies in small and large categories.

To qualify, companies must have a physical presence in the state and be a for-profit entity. South Atlantic Bank was the only Grand Strand-based business and the only bank to be honored at the awards presentation in Columbia. The majority of companies hail from Columbia, Greenville, and Charleston. SC Biz News produces several state-wide business publications including *SC Biz Magazine*, *Charleston Regional Business Journal*, *Columbia Regional Business Report*, and *GSA Business*.

Community Leadership

We continue to support many local organizations through sponsorships and donations. We play an active role in local schools and our tours for elementary school students continue to be one of our most popular events. Our employees contribute their time by volunteering at events, serving on boards and committees, and participating in special fundraisers to help area organizations reach their goals. This year's fundraiser for the Grand Strand Miracle League set a bank record, bringing in more than $5,700 for the Fall Baseball Opener. Additionally, we raised more than $1,400 for the American Red Cross during its Heroes campaign. We take our commitment to our communities very seriously and are glad to participate in any way we can.

Scenes from the Grand Strand Miracle Leagues Fall Baseball Opener

Our achievements in 2015 have set the stage for success in the months and years to come. We hope you are pleased with the accomplishments cited in this report and as always, we appreciate your investment in the company. Please make plans to attend our Annual Meeting of Shareholders to be held at our Myrtle Beach headquarters on Tuesday, April 19 at 5:30 p.m.

K. Wayne Wicker

K. Wayne Wicker
Chairman of the Board
Chief Executive Officer

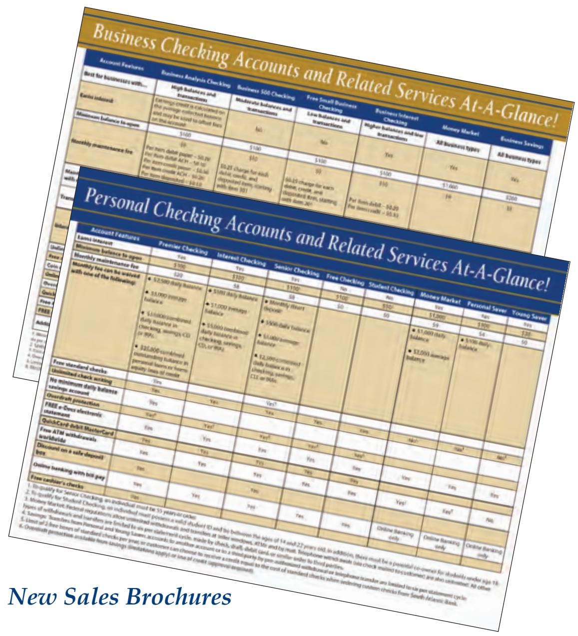
Products, Technology, and People Key to Relationships

South Atlantic Bank has long been known for its exemplary customer service and professionalism. These guiding principles are the backbone of the bank's Mission Statement. To deliver on these promises requires that we have the products, technology, and people in place to get the job done. In the year just past, we strengthened our product menu, made an even bigger commitment to technology, and continued to develop a core of passionate employees.

Products and Promotions

In 2015, a team of bankers from across all areas of the bank revamped the deposit product menu to help grow retail business. Products that help us expand existing customer relationships and develop new ones are vital to this effort.

For consumers, we created a Premier checking account to reward customers who have multiple services with us. This package account takes the customer's entire relationship – both deposits and loans – into consideration thereby reducing or eliminating maintenance fees. It's a win-win for existing and new customers and can be the difference in gaining an entire new relationship or opening just a single account. Similar changes were made to the Interest and Senior checking products. Additionally, the Young Savers and Student accounts now have lower minimum opening requirements, helping to encourage the habit of saving and financial responsibility from an early age.



New Sales Brochures

Business customers are also benefitting from the relationship approach with the Business Analysis and Business 500 checking accounts. These packages come with a free Premier checking account to meet the customer's non-business banking needs, helping the bank gain the customer's complete book of business. Other attractive features include up to two free cashier's checks per month and no fees for night deposit service, coin and currency, and or incoming wire transfers.

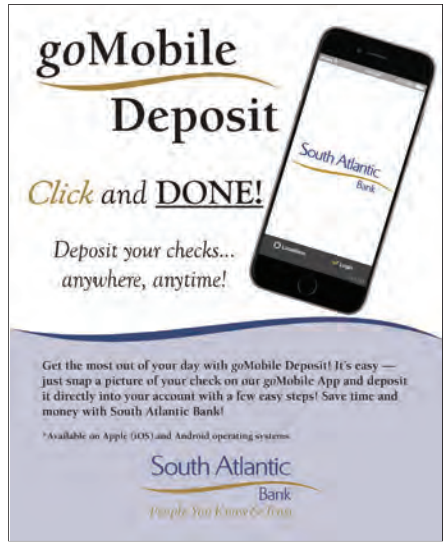
The updated products will feature prominently in the bank's 2016 marketing plans, using a mix of website, statement inserts, print ads, and television commercials to build awareness.

2016 Marketing Campaigns

Commitment to Technology

Technologically advanced products help the bank expand customer relationships through the freedom they provide. Customers are eager for ways to do their banking faster, better, and smarter and the new advancements do not disappoint.

South Atlantic Bank *go*Mobile has been a staple on the product menu for the past two years, allowing customers to do their banking anywhere, anytime. The newest feature – a deposit function – was added in the first quarter 2016. In a few easy steps, customers can take a picture of a check and deposit it into their South Atlantic Bank account without making a trip to the bank. All that's needed is a smart phone with a camera! Banking has never been this easy!



goMobile Deposit Guide

In another advancement, the bank exchanged its dot com web address for the financially-oriented and security-driven dot bank domain when SouthAtlantic.bank debuted in late 2015. Dot bank is one of more than 1,000 new generic top level domain (gTLD) names that will be developed and implemented over the next several years. Stronger security requirements set dot bank apart from other gTLDs such as dot com.

As customers increasingly migrate to online and mobile banking services, financial institutions need to take every opportunity to continually improve security for online commerce. The move to dot bank is a forward-thinking approach that will serve the bank well in the years ahead.

The use of EMV chips for South Atlantic Bank credit and debit cards is another technological advance geared toward safety. Credit card customers received new, EMV-chipped cards in late January 2016, with the debit card reissue slated to begin in the second quarter.

With fraud an expensive and continuing problem, the processing companies – MasterCard, Visa, and American Express – and the banking industry worked together for

Re-Designed Credit Cards with EMV Chips stronger card security in the U.S. The EMV chip protects customers' personal data because each time the card is used for a transaction, it encrypts the information into a unique code that can't be used again. The cards become more difficult to duplicate, diminishing this potential source of fraud.

The ongoing fight to deter fraud also drove the bank's decision to offer *sms*Guardian free to its customers. This short message service sends a text to the mobile device registered with the customer's account any time specific debit card transactions take place. The text is sent within seconds of the card swipe and customers need to respond only if they did not make the transaction in question. Transactions with a higher risk of fraud, such as out-of-state purchases, will trigger a text alert. This business decision is in best interest of customers and the bank because it is much more cost effective to stop fraud before it happens than to repair the damage.

The Right People in the Right Locations

The bank opened its doors on November 28, 2007, with 11 staff members and one location. Today, the bank has grown to six locations and 75 employees, spanning the coast from North Myrtle Beach to Mount Pleasant. In building the team, employees were hand-picked for their roles with the utmost consideration given to their skill sets and their ability to work together as a unit, along with their local experience and knowledge of the community. These parameters have guided hiring for both departmental roles and branch expansion. A recent case in point is our new North Myrtle Beach office. While a presence in North Myrtle Beach has long been a part of the bank's growth plan, we did not act on it until both strong bankers and a premium location became available. With these elements in place, the new office was successfully launched in early 2015.

The combination of products, technology, and people has positioned the bank well for further growth and expansion throughout its geographic footprint.

North Myrtle Beach Team

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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated 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, 2015 and 2014, 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 8, 2016

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets

	As of December 31, 2015	As of December 31, 2014
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 7,786,177	$ 2,553,286
Federal funds sold and interest-bearing deposits	669,921	22,079,446
Total cash and cash equivalents	8,456,098	24,632,732
Investment securities:		
Securities available-for-sale	51,820,345	52,320,374
Nonmarketable equity securities	963,600	286,300
Total investment securities	52,783,945	52,606,674
Mortgage loans held-for-sale	4,948,927	360,035
Loans receivable	309,038,587	262,286,214
Less allowance for loan losses	2,830,686	2,624,797
Loans, net	306,207,901	259,661,417
Premises, furniture and equipment, net	16,466,268	16,775,509
Bank-owned life insurance	8,727,884	5,530,376
Other real estate owned	–	101,765
Accrued interest receivable	1,306,961	1,375,907
Other assets	1,319,641	2,303,518
Total assets	**$ 400,217,625**	**$ 363,347,933**
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 69,223,273	$ 68,225,992
Interest-bearing transaction accounts	41,010,275	25,554,864
Savings and money market accounts	178,212,598	182,605,318
Time deposits $250,000 and over	19,076,339	18,527,395
Other time deposits	29,839,438	31,680,383
Total deposits	337,361,923	326,593,952
Advances from Federal Home Loan Bank	15,000,000	–
Federal funds purchased	11,889,500	–
Accrued interest payable	22,115	26,484
Notes payable	–	1,271,000
Other liabilities	299,160	3,214,702
Total liabilities	**$ 364,572,698**	**$ 331,106,138**
Commitments and contingencies (Notes 13, 15, and 20)		
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; 3,829,672 and 3,372,042 shares issued and outstanding at December 31, 2015 and 2014, respectively	$ 3,829,672	$ 3,372,042
Capital surplus	31,984,379	28,583,406
Retained earnings	–	426,253
Accumulated other comprehensive income (loss)	(169,124)	(139,906)
Total shareholders' equity	35,644,927	32,241,795
Total liabilities and shareholders' equity	**$ 400,217,625**	**$ 363,347,933**

See accompanying *Notes to Consolidated Financial Statements*.

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

	For the Years Ended December 31, 2015	2014
Interest income:		
Loans, including fees	$ 13,161,794	$ 11,667,368
Securities available-for-sale	932,199	1,323,076
Federal funds sold and interest-bearing deposits	43,020	21,835
Total	14,137,013	13,012,279
Interest expense:		
Deposits	1,137,627	1,156,491
Other borrowings	23,602	31,038
Total	1,161,229	1,187,529
Net interest income	**12,975,784**	**11,824,750**
Provision for loan losses	230,000	475,000
Net interest income after provision for loan losses	**12,745,784**	**11,349,750**
Noninterest income:		
Mortgage origination income	874,983	481,466
Merchant fee income	448,545	379,663
Service charges on deposit accounts	188,604	119,035
Gain on sale of investment securities	270,353	79,264
Bank-owned life insurance income	197,508	160,164
Gain on sale of loans	56,642	–
Other fee income	596,081	485,886
Total noninterest income	2,632,716	1,705,478
Noninterest expenses:		
Salaries and employee benefits	7,225,454	6,414,016
Net occupancy	948,173	804,602
Furniture and equipment	498,669	377,832
FDIC banking assessments	217,183	211,272
Advertising	486,963	410,391
Data processing fees	404,931	317,406
Other operating expenses	2,491,087	2,082,608
Total noninterest expenses	12,272,460	10,618,127
Income before income taxes	3,106,040	2,437,101
Income taxes	865,223	432,883
Net income	**$ 2,240,817**	**$ 2,004,218**
Income per common share:		
Basic income per common share	**$ 0.65**	**$ 0.60**
Average common shares outstanding – basic	3,457,666	3,342,055
Diluted income per common share	**0.63**	**$ 0.59**
Average common shares outstanding – diluted	3,584,887	3,408,122

See accompanying *Notes to Consolidated Financial Statements*.

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

	For the Years Ended 2015	2014
Net Income	**$ 2,240,817**	**$ 2,004,218**
Other comprehensive income (loss)		
Unrealized gain on securities available-for-sale	231,908	3,731,507
Reclassification adjustment for gains realized in net income	(270,353)	(79,264)
Net unrealized gains (losses) on securities	(38,445)	3,652,243
Income tax benefit (expense)	9,227	(876,538)
Net-of-tax amount	(29,218)	$ 2,775,705
Comprehensive income	**$ 2,211,599**	**$ 4,779,923**

See accompanying *Notes to Consolidated Financial Statements*.

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

Years Ended December 31, 2015 and 2014

	Common Stock Shares	Common Stock Amount	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
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 $876,538	–	–	–	–	2,775,705	2,775,705
Stock and warrant compensation expense	–	–	2,908	–	–	2,908
Proceeds from stock offering, net	334,727	334,727	2,983,397	–	–	3,318,124
Balance, December 31, 2014	**3,372,042**	**$ 3,372,042**	**$ 28,583,406**	**$ 426,253**	**$ (139,906)**	**$ 32,241,795**
Net income	–	–	–	2,240,817	–	2,240,817
Other comprehensive loss, net of tax expense of $9,227	–	–	–	–	(29,218)	(29,218)
Stock and warrant compensation expense	–	–	2,908	–	–	2,908
Proceeds from stock offering, net	109,452	109,452	1,079,173	–	–	1,188,625
Stock dividend (10%)	348,178	348,178	2,318,892	(2,667,070)	–	–
Balance, December 31, 2015	**3,829,672**	**$ 3,829,672**	**$ 31,984,379**	**$ –**	**$ (169,124)**	**$ 35,644,927**

See accompanying *Notes to Consolidated Financial Statements*.

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

	For the Years Ended December 31, 2015	2014
Cash flows from operating activities:		
Net income	$ 2,240,817	$ 2,004,218
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	230,000	475,000
Depreciation expense	746,787	579,153
Discount accretion and premium amortization	845,699	968,064
Stock and warrant compensation expense	2,908	2,908
Gain on sale of securities	(270,353)	(79,264)
Deferred taxes	(686,909)	(1,350,989)
Amortization of deferred loan costs and fees, net	130,707	254,716
Write downs of other real estate owned	12,500	10,000
Loss on sale of other real estate owned	19,811	–
Increase in cash surrender value of bank-owned life insurance	(197,508)	(160,163)
Decrease in accrued interest receivable	68,946	63,782
Increase (decrease) in accrued interest payable	(4,369)	11,493
Decrease in other assets	1,680,013	547,298
Increase (decrease) in other liabilities	(2,915,542)	2,972,466
Net cash provided by operating activities	1,903,507	6,298,682
Investing activities:		
Purchase of securities available-for-sale	(32,411,175)	(20,906,806)
Proceeds from sales of securities available-for-sale	25,802,522	40,183,253
Proceeds from maturities, calls, and paydowns of securities available-for-sale	6,494,891	4,185,392
(Purchase) sale of nonmarketable equity securities	(677,300)	422,000
Net increase in loans	(51,496,083)	(45,227,975)
Purchase of bank-owned life insurance	(3,000,000)	–
Purchases of premises, furniture, and equipment	(437,546)	(2,706,559)
Proceeds from sale of other real estate owned	69,454	184,581
Net cash used by investing activities	(55,655,237)	(23,866,114)
Financing activities:		
Increase in noninterest-bearing deposits	997,281	29,829,432
Increase in interest-bearing deposits	9,770,690	11,245,913
Increase (decrease) in notes payable	(1,271,000)	1,271,000
Proceeds from Federal Home Loan Bank Advances	28,500,000	–
Repayments of Federal Home Loan Bank Advances	(13,500,000)	(8,140,000)
Increase in Federal funds purchased	11,889,500	–
Proceeds from stock offering, net	1,188,625	3,318,124
Net cash provided by financing activities	37,575,096	37,524,469
Net increase (decrease) in cash and cash equivalents	(16,176,634)	19,957,037
Cash and cash equivalents, beginning of year	24,632,732	4,675,695
Cash and cash equivalents, end of year	**$ 8,456,098**	**$ 24,632,732**
Cash paid during the year for:		
Interest	$ 1,165,598	$ 1,176,036
Income taxes	$ 77,000	$ 70,465
Noncash investing and financing activities:		
Unrealized gain (loss) on securities available-for-sale	$ (38,445)	$ 3,652,243
Transfer of loans to other real estate owned	$ –	$ 256,346

See accompanying *Notes to Consolidated Financial Statements*.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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, 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.

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, 2015 and 2014, the investment in Federal Home Loan Bank stock was $963,600 and $286,300, 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.

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 evaluations. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

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 five to 10 years, and for software of three 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, 2015 and 2014, the Bank recognized $127,117 and $161,137, respectively, in expenses related to this plan.

On January 1, 2013, we converted our 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 of service in a Plan year is eligible to participate in the ESOP. The Company recognizes expense when the contribution is approved by the Board of Directors. There was no expense for the years ended December 31, 2015 and 2014.

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 2015 and 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, 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 the 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 were 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 applied the amendments prospectively. These amendments did not have a material effect on the Company's 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, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. 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 January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years beginning after December 15, 2016, and interim periods beginning after December 15, 2017, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2015, the FASB issued amendments to clarify the Accounting Standards Codification (ASC), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers*. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. 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 January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the balance sheet. The new lease standard only contains targeted changes to accounting by lessors, however, lessees will be required to recognize most leases in their balance sheets as lease liabilities for lease payments and right of use assets representing the lessee's rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted for all companies and organizations. Management is currently analyzing the impact of the adoption of this guidance on the Company's consolidated financial statements, including assessing changes that might be necessary to information technology systems, process and internal controls to capture new data, and address changes in financial reporting.

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 2014 consolidated financial statements were reclassified to conform with the 2015 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, 2015 and 2014 was approximately $1,552,000 and $661,000 respectively.

The Company also had a compensating balance requirement with another correspondent bank of $2,000,000 as of December 31, 2015.

Note 3. Investment Securities

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

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 18,597,308	$ 8,197	$ 173,274	$ 18,432,231
SBA loan pools	9,882,761	7,823	93,332	9,797,252
Obligations of state and local governments	23,562,808	325,127	297,073	23,590,862
Total investment securities	**$ 52,042,877**	**$ 341,147**	**$ 563,679**	**$ 51,820,345**

	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**

The following is a summary of maturities of securities available-for-sale as of December 31, 2015. The amortized cost and estimated fair values are based on the contractual maturity dates except for mortgage-backed securities.

	Securities Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ –	$ –
Due after one year but within five years	4,560,391	4,554,955
Due after five years but within ten years	20,074,512	19,997,222
Due after ten years	8,810,666	8,835,936
Mortgage-backed securities	18,597,308	18,432,232
Total	**$ 52,042,877**	**$ 51,820,345**

The following tables 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, 2015 and 2014.

	December 31, 2015					
	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	$ 11,130,128	$ 132,526	$ 2,579,121	$ 40,748	$ 13,709,249	$ 173,274
SBA loan pools	3,034,561	9,172	5,811,683	84,160	8,846,244	93,332
Obligations of state and local governments	9,842,235	215,591	2,225,303	81,482	12,067,538	297,073
Total	**$ 24,006,924**	**$ 357,289**	**$ 10,616,107**	**$ 206,390**	**$ 34,623,031**	**$ 563,679**

	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	9,053,385	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**	**$ 37,421,344**	**$ 521,578**

There were nine securities with an unrealized loss for greater than twelve months at December 31, 2015 and seventeen at December 31, 2014.

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 2015 and 2014 totaled $25,802,522 and $40,183,253 respectively. Sales of securities during 2015 resulted in gross realized gains of $325,108 and gross realized losses of $54,755, respectively. Sales of securities during 2014 resulted in gross realized gains of $338,989 and gross realized losses of $259,725, respectively.

At December 31, 2015, securities with book values of $5,537,669 and market values of $5,499,299 were pledged to secure federal funds lines of credit with other financial institutions. At December 31, 2014, securities with book values of $6,716,741 and market values of $6,772,321 were pledged to secure public deposits.

Note 4. Loans Receivable

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

	2015	2014
Commercial	$ 24,249,172	$ 25,852,900
Commercial real estate	178,905,360	150,807,184
Consumer	2,929,434	2,381,768
Consumer real estate	103,085,328	83,499,077
Total gross loans	309,169,294	262,540,929
Less unearned origination fees, net	130,707	254,715
Allowance for loan losses	2,830,686	2,624,797
Loans, net	**$ 306,207,901**	**$ 259,661,417**

The following is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the years ended December 31, 2015:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 80,011	$ 542,109	$ 15,222	$ 208,512	$ 1,778,943	$ 2,624,797
Charge-offs	–	–	(14,661)	(84,767)	–	(99,428)
Recoveries	74,800	–	517	–	–	75,317
Provisions	(142,714)	477,408	(1,005)	(80,919)	(22,770)	230,000
Ending balance	**$ 12,097**	**$ 1,019,517**	**$ 73**	**$ 42,826**	**$ 1,756,173**	**$ 2,830,686**
Ending balances:						
Individually evaluated for impairment	$ –	$ 694,000	$ –	$ –	$ –	$ 694,000
Collectively evaluated for impairment	$ 12,097	$ 325,517	$ 73	$ 42,825	$ 1,756,174	$ 2,136,686
Loans receivable:						
Ending balance — total	**$ 24,249,172**	**$ 178,905,360**	**$ 2,929,434**	**$ 103,085,328**	**$ –**	**$ 309,169,294**
Ending balances:						
Individually evaluated for impairment	$ –	$ 2,505,474	$ 59,191	$ 526,522	$ –	$ 3,091,187
Collectively evaluated for impairment	$ 24,249,172	$ 176,399,886	$ 2,870,243	$ 102,558,806	$ –	$ 306,078,107

The following is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the years ended 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

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 is an analysis of our loan portfolio by credit quality indicators at December 31, 2015:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 24,174,755	$ 172,064,545	$ 2,870,243	$ 102,358,068	$ 301,467,611
Special Mention	74,417	2,758,683	–	–	2,833,100
Substandard	–	4,082,132	59,191	727,260	4,868,583
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**$ 24,249,172**	**$ 178,905,360**	**$ 2,929,434**	**$ 103,085,328**	**$ 309,169,294**

The following 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	$ 254,328,951
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 a past due aging analysis of our loan portfolio at December 31, 2015:

	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	$ –	$ –	$ –	$ –	$ 24,249,172	$ 24,249,172	$ –
Commercial RE	–	–	–	–	178,905,360	178,905,360	–
Consumer	–	–	–	–	2,929,434	2,929,434	–
Consumer RE	–	–	–	–	103,085,328	103,085,328	–
Total	**$ –**	**$ –**	**$ –**	**$ –**	**$ 309,169,294**	**$ 309,169,294**	**$ –**

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 an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ –	$ –	$ –	$ –	$ –
Commercial real estate	612,620	612,620	–	618,937	21,771
Consumer — other	59,191	59,191	–	62,431	2,315
Consumer — real estate	526,522	630,871	–	531,987	25,094
With an allowance recorded:					
Commercial	$ –	$ –	$ –	$ –	$ –
Commercial real estate	1,892,854	1,892,854	694,000	1,914,841	47,269
Consumer — other	–	–	–	–	–
Consumer — real estate	–	–	–	–	–
Total:					
Commercial	$ –	$ –	$ –	$ –	$ –
Commercial real estate	2,505,474	2,505,474	694,000	2,533,778	69,040
Consumer — other	59,191	59,191	–	62,431	2,315
Consumer — real estate	526,522	630,871	–	531,982	25,094
Total	**$ 3,091,187**	**$ 3,195,536**	**$ 694,000**	**$ 3,128,191**	**$ 96,449**

The following 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 is an analysis of our nonaccrual loan portfolio recorded at December 31, 2015 and 2014:

	2015	2014
Commercial	$ –	$ –
Commercial real estate	–	332,972
Consumer	–	–
Consumer real estate	401,663	–
Total	**$ 401,663**	**$ 332,972**

Troubled Debt Restructurings

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 is an analysis of TDRs identified during 2015:

		For the Year Ended December 31, 2015	
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	–	$ –	$ –
Commercial real estate	–	–	–
Consumer	–	–	–
Consumer real estate	1	139,126	54,360
Total	**1**	**$ 139,126**	**$ 54,360**

During the year ended December 31, 2015, the bank modified one loan that was considered to be a troubled debt restructuring. The loan was originally a HELOC restructured to a 5 year fixed rate loan. No loans previously identified as TDRs went into default (as defined by non-accrual classification) during the year ended December 31, 2015.

The following 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**

During the year ended December 31, 2014, the bank modified one loan that was considered to be a troubled debt restructuring. The original loan was a HELOC restructured to a fixed rate 10 year term loan. No loans previously identified as TDRs went into default (as defined by non-accrual classification) during the year ended December 31, 2014.

Note 5. Premises, Furniture and Equipment

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

	2015	2014
Land	$ 5,421,993	$ 5,421,993
Buildings and leasehold improvements	10,900,094	10,829,941
Furniture and equipment	3,277,132	2,780,345
Software	587,648	575,500
Automobile	40,909	40,909
Construction in progress	21,490	163,032
Total	20,249,266	19,811,720
Less, accumulated depreciation	3,782,998	3,036,211
Premises, furniture and equipment, net	**$ 16,466,268**	**$ 16,775,509**

Depreciation expense for the years ended December 31, 2015 and 2014 was $746,787 and $579,153, respectively.

NOTE 6. OTHER REAL ESTATE OWNED

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

	2015	2014
Balance, beginning of year	$ 101,765	$ 40,000
Additions	–	256,346
Proceeds from sales	(89,265)	(184,581)
Write downs	(12,500)	(10,000)
Balance, end of year	**$ –**	**$ 101,765**

NOTE 7. DEPOSITS

At December 31, 2015, the scheduled maturities of time deposit are as follows:

2016	$ 21,645,761
2017	6,999,456
2018	6,349,603
2019	350,012
2020	13,570,945
Total	**$ 48,915,777**

The bank had brokered deposits of $15,685,000 and $15,613,000 as of December 31, 2015 and 2014, 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 matured on January 5, 2016. At December 31, 2015, the line of credit had been paid in full using funds from the capital raise in 2015. At December 31, 2014, the amount outstanding on the parent company's line of credit was $1,271,000.

NOTE 9. ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank (FHLB) consisted of the following at December 31, 2015:

Description	Current Interest Rate	2015 Balance
FHLB advances maturing		
January 4, 2016	0.33%	$ 5,000,000
February 2, 2016	0.34%	10,000,000
Total		$ 15,000,000

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, 2015, the pledged collateral totaled approximately $35 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 166,447 options as adjusted for the Company's 2012 and 2015 stock dividends. 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 99,868 options, as adjusted for the Company's 2012 and 2015 stock dividends. These options vest ratably over five years. The options have an exercise price of $8.26 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 378,886 stock options, as adjusted for the Company's 2012 and 2015 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 $8.26 per share and terminate ten years after the date of grant. During 2013, the Company granted a total of 17,050 stock options, as adjusted for the Company's 2015 stock dividends. These options have a vesting and expected term of five years. These options have an exercise price of $9.55 and terminate ten years after the date of the grant.

There were 392,305 exercisable options at December 31, 2015 with a weighted average exercise price of $8.32. There was no aggregate intrinsic value of these options at December 31, 2015. Total compensation expense related to stock options was $2,908 and $2,908 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, there was $6,956 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, 2015 and 2014:

	2015	2014
Number of options	392,305	392,305
Weighted average remaining life	2 years	3 years
Weighted average exercise price	$ 8.32	$ 8.32
High exercise price	$ 9.55	$ 9.55
Low exercise price	$ 8.26	$ 8.26
Aggregate intrinsic value	$ —	$ —

A summary of the status of the Company's nonvested shares as of December 31 is presented below:

	2015		2014	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested at the beginning of year	13,640	$ 1.02	17,050	$ 1.02
Granted	—	—	—	—
Vested	3,410	1.02	3,410	1.02
Forfeited	—	—	—	—
Nonvested at end of year	**10,230**	**$ 1.02**	**13,640**	**$ 1.02**

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 12,100 shares at a price of $8.26 per share, as adjusted for the stock dividends. 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).

In 2015, no warrants were issued or cancelled. At December 31, 2015, there were 108,900 outstanding and exercisable.

Note 12. Income Taxes

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

	2015	2014
Current income tax expense (benefit):		
Federal	$ 117,973	$ (86,962)
State	51,142	45,394
Total	169,115	(41,568)
Deferred income tax expense (benefit):		
Federal	750,191	$ 535,617
State	(54,083)	(61,166)
Total	696,108	474,451
Income tax expense	**$ 865,223**	**$ 432,883**

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

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 638,476	$ 568,474
Net operating loss carryforward	460,256	1,194,644
Organization and start-up costs	114,971	131,797
Federal and state credits	436,109	322,960
Unrealized loss on securities available-for-sale	53,408	44,180
Other	2,502	69,497
Total deferred tax assets	1,705,722	2,331,552
Valuation allowance	(7,483)	(5,851)
Net deferred tax assets	**$ 1,698,239**	**$ 2,325,701**
Deferred tax liabilities:		
Accumulated depreciation	1,552,072	1,536,278
Loan origination costs	130,872	72,449
Prepaid expenses	9,330	24,129
Total deferred tax liabilities	1,692,274	1,632,856
Net deferred tax assets	**$ 5,965**	**$ 692,845**

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, 2015 and 2014. 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, 2015 and 2014, small valuation allowances in the amounts of $7,483 and $5,851, respectively, remain 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 $1,334,268 and $3,499,410 as of December 31, 2015 and 2014, respectively. The Company has a state net operating loss carryforward of $200,159 and $146,804 as of December 31, 2015 and 2014, 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, 2015 and 2014:

	2015	2014
Tax expense at statutory rate	$ 1,056,054	$ 828,614
State income tax, net of federal income tax benefit	(1,941)	(10,410)
Change in valuation allowance	1,632	618
Cash surrender value of life insurance	(67,153)	(54,456)
Other municipal income	(188,350)	(241,271)
Other	64,981	(90,212)
Income tax expense	**$ 865,223**	**$ 432,883**

Tax returns for 2012 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 $124,407 and $147,929 for the years ended December 31, 2015 and December 31, 2014, 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:

2016	$ 189,673
2017	192,672
2018	184,047
2019	151,422
2020 and thereafter	120,000
Total	**$ 837,814**

The Company is leasing a portion of its Murrells Inlet location to an unrelated tenant. Lease income generated from this tenant totaled $52,721 and $61,950 during the years ended December 31, 2015 and 2014, respectively.

Note 14. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families, and their 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, 2015 and 2014, the Company had related party loans totaling $7,685,909 and $8,470,918, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately $19,151,779 and $20,315,217 at December 31, 2015 and 2014, 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:

	2015	2014
Income per common share – basic computation:		
Net income	$ 2,240,817	$ 2,004,218
Average common shares outstanding – basic	3,457,666	3,342,055
Basic income per common share	$ 0.65	$ 0.60
Income per common share – diluted computation:		
Net income	$ 2,240,817	$ 2,004,218
Average common shares outstanding – basic	3,457,666	3,342,055
Incremental shares from assumed conversions:		
Stock options and warrants	127,221	60,067
Average common shares outstanding – diluted	3,584,887	3,408,122
Diluted income per common share	$ 0.63	$ 0.59

Note 17. Regulatory Matters

The Company and the Bank are 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 material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classifications 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 (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. 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 Company and the Bank are also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of CET1, but the buffer will apply to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016, and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

As of the most recent regulatory examination, the Bank was deemed well-capitalized under the regulatory framework for prompt corrective action. To be categorized well-capitalized, the Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Bank's categories.

The following table summarizes the capital ratios and the regulatory minimum requirements of the Bank at December 31, 2015 and 2014.

	Actual		For capital adequacy purposes Minimum		To be well-capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Total capital (to risk-weighted assets)	$ 34,324,000	14.49%	$ 18,954,000	8.00%	$ 23,693,000	10.00%
Tier 1 capital (to risk-weighted assets)	31,493,000	13.29%	14,216,000	6.00%	18,954,000	8.00%
Tier 1 capital (to average assets)	31,493,000	8.14%	15,481,000	4.00%	19,351,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	31,493,000	13.29%	10,662,000	4.50%	15,400,000	6.50%
December 31, 2014						
Total capital (to risk-weighted assets)	$ 32,043,000	11.30%	$ 22,677,000	8.00%	$ 28,346,000	10.00%
Tier 1 capital (to risk-weighted assets)	29,418,000	10.38%	11,338,000	4.00%	17,008,000	6.00%
Tier 1 capital (to average assets)	29,418,000	8.53%	13,799,000	4.00%	17,249,000	5.00%

Note 18. Unused Lines of Credit

As of December 31, 2015, the Company had available lines of credit to purchase federal funds from unrelated banks totaling $30,700,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. As of December 31, 2015, the balance outstanding on the lines was $11,889,500. At December 31, 2014, there were no borrowings on these lines.

The Company also has an additional line of credit with the Federal Home Loan Bank with available funds totalling $35,425,000. As of December 31, 2015, the balance outstanding on this line was $15,000,000. At December 31, 2014, there were no borrowings on this line.

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 could 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 $363,873. This resulted in the issuance of 334,727 shares. However, the Company elected to extend the offering into 2015. As of December 31, 2015, the Company had received gross proceeds of $1,203,972 and incurred offering costs of $15,347. This resulted in the issuance of 109,452 shares. The stock offering was officially terminated as of March 31, 2015.

Stock Dividends – In December 2015, the Board of Directors declared a ten percent stock dividend payable on December 29, 2015, to shareholders of record at November 28, 2015. As a result of the stock dividend, 348,178 shares were issued. Except as noted, all share and per share amounts have been adjusted to reflect these dividends.

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. As of December 31, 2015, the Bank had no retained earnings available for dividends.

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, 2015 and 2014 whose contract amounts represent credit risk:

	2015	2014
Commitments to extend credit	$ 45,104,000	$ 38,063,000
Letters of credit	2,978,000	2,820,100
Total	**$ 48,082,000**	**$ 40,883,100**

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.

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, 2015 and 2014, 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.

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

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Obligations of state and local governments	23,590,862	–	23,590,862	–
Mortgage-backed securities	18,432,231	–	18,432,231	–
SBA loan pools	9,797,252	–	9,797,252	–
Loans held-for-sale	4,948,927	–	4,948,927	–
Total	**$ 56,769,272**	**$ –**	**$ 56,769,272**	**$ –**

	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	**$ 52,680,409**	**$ –**	**$ 52,680,409**	**$ –**

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). 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, 2015 and 2014, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2015 and 2014.

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$ –	$ –	$ –	$ –
Impaired loans:				
Commercial	–	–	–	–
Commercial real estate	1,811,474	–	1,811,474	–
Consumer	59,191	–	5,191	–
Consumer real estate	526,522	–	526,522	–
Total impaired loans	2,397,187	–	2,397,187	–
Total	**$ 2,397,187**	**$ –**	**$ 2,397,187**	**$ –**

	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	2,686,722	–	2,686,722	–
Consumer	–	–	–	–
Consumer real estate	81,962	–	81,962	–
Total impaired loans	2,649,413	–	2,649,413	–
Total	**$ 2,751,178**	**$ –**	**$ 2,751,178**	**$ –**

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,	
	2015	2014
Assets:		
Cash	$ 3,314,140	$ 3,520,143
Investment in bank subsidiary	31,521,767	29,278,005
Other assets	809,020	782,147
Total assets	**$ 35,644,927**	**$ 33,580,295**
Liabilities and shareholders' equity:		
Accrued expenses	–	1,338,500
Shareholders' equity	35,644,927	32,241,795
Total liabilities and shareholders' equity	**$ 35,644,927**	**$ 33,580,295**

Condensed Statements of Income

	2015	2014
Income	$ —	$ —
Expenses:		
Salaries and benefits	2,908	2,908
Other	49,462	18,725
Total	52,370	21,633
Loss before income taxes and equity in undistributed income of banking subsidiary:	(52,370)	(21,633)
Income tax benefit	20,207	8,344
Equity in undistributed income of banking subsidiary	2,272,980	2,017,507
Net income	**$ 2,240,817**	**$ 2,004,218**

Condensed Statements of Cash Flows

	2015	2014
Operating activities:		
Net income	$ 2,240,817	$ 2,004,218
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed income of bank subsidiary	(2,272,980)	(2,017,507)
Stock and warrant compensation expense	2,908	2,908
Increase in investment in bank	—	(710,000)
Decrease in accrued expenses and other liabilities	(67,500)	65,695
Decrease in other assets	(26,873)	(732,793)
Net cash used in operating activities	(123,628)	(1,387,479)
Financing activities:		
Proceeds from stock offering, net	1,188,625	3,318,124
Proceeds from notes payable	—	1,271,000
Repayment of notes payable	(1,271,000)	—
Net cash (used in) provided by financing activities	(82,375)	4,589,124
Net (decrease) increase in cash and cash equivalents	(206,003)	3,201,645
Cash, beginning of year	3,520,143	318,498
Cash, end of year	**$ 3,314,140**	**$ 3,520,143**

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 8, 2016, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.

Officers

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Chairman
Chief Executive Officer

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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

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Senior Vice President
Comptroller

Kathy M. Doane
Assistant Vice President
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
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Senior Vice President
Director of Loan Operations

Karen M. Atwood
Vice President
Loan Documentation Manager

Deborah B. Atkins
Assistant Vice President
Loan Administration Specialist

Marketing
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Senior Vice President
Director of Marketing

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

Mortgage Services
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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

Leah M. Rodriguez
Banking Officer
Mortgage Loan Originator

Branch Personnel
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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

Alison Van Wagner
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

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

Shirley Y. Kulcsar
Assistant Vice President
Loan Assistant

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
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Regional Executive

Brian J. Michel
Senior Vice President
Commercial Lender

Kurt S. Seguer
Senior 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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Board of Directors

Front row from left to right: Martha S. Lewis; Richard N. Burch; K. Wayne Wicker; and R. Scott Plyler. Back row from left to right: Zeb M. Thomas, Jr.; Miles M. Herring; James Carson Benton, Jr.; Tony K. Cox; Jack L. Springs, Jr.; Albert A. Springs, IV; and Thomas C. Brittain. This photo was taken at the Marina Inn during the board's annual strategic planning retreat held in October 2015. The two-day program features intensive sessions to chart the bank's future course, while including a review of financial performance and discussion of banking topics and trends.

James Carson Benton, Jr.
Co-Owner and Operator
C.L. Benton and Sons

Thomas C. Brittain
Trial Lawyer and Partner
The Brittain Law Firm

Richard N. Burch
Executive Vice President
Chief Financial Officer
South Atlantic Bank

Tony K. Cox
Executive Vice President
Real Estate
Burroughs and Chapin Company

Miles M. Herring
Franchisee and Operator
Krispy Kreme Doughnuts

Martha S. Lewis
Senior Physical Therapist
NextStep Rehabilitation
An Affiliate of Tidelands Health

R. Scott Plyler
President
South Atlantic Bank

Albert A. Springs, IV
Co-Owner and President
H.B. Springs Company

Jack L. Springs, Jr.
Co-Owner/Broker
Century 21 Barefoot Realty

Zeb M. Thomas, Jr.
Retired Hotelier

K. Wayne Wicker
Chairman
Chief Executive Officer
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