South Atlantic Bancshares, Inc.

2016 Annual Report

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 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 residential mortgages, commercial 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. Its 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, 2016, there were 593 shareholders of record.

Annual Meeting

The Annual Meeting of Shareholders of South Atlantic Bancshares, Inc. will take place on Tuesday, April 18, 2017, 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, North Carolina 27560
transfer@issuerdirect.com
919.744.2722

Corporate Counsel

Hunton & Williams LLP
2200 Pennsylvania Avenue, NW
Washington, DC 20037

Independent Accountants

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

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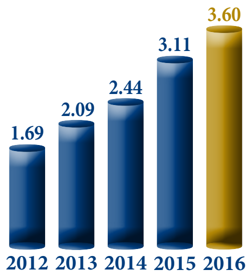
The front cover of the 2016 Annual Report features the artist's rendering of our new regional headquarters in Mount Pleasant, to be completed in summer 2017.

Selected Financial Highlights

	For the Year Ended 2016	For the Year Ended 2015	For the Year Ended 2014	For the Year Ended 2013	For the Year Ended 2012
Year-to-Date Balances (In Thousands)					
Total assets	$ 444,533	$ 400,218	$ 363,348	$ 318,057	$ 284,988
Investment securities	43,633	52,784	52,607	73,727	59,455
Loans, net of unearned income (total loans)	368,991	313,988	262,646	218,174	189,979
Deposits	382,263	337,362	326,594	285,519	259,338
Shareholders' equity	37,440	35,645	32,242	24,141	23,359
Average Balances (In Thousands)					
Total assets	$ 430,655	$ 374,291	$ 341,288	$ 307,746	$ 263,886
Earning assets	399,829	348,172	318,590	281,908	243,927
Investment securities	41,914	51,238	67,306	69,880	49,505
Loans, net of unearned income	340,892	279,810	239,797	199,817	173,624
Deposits	382,537	335,849	308,929	281,306	238,513
Shareholders' equity	37,554	33,961	26,925	24,904	24,092
Earnings Breakdown (In Thousands)					
Total interest income	$ 16,513	$ 14,137	$ 13,012	$ 11,291	$ 10,002
Total interest expense	1,432	1,161	1,188	1,311	1,620
Net interest income	15,081	12,976	11,825	9,980	8,382
Total noninterest income	3,005	2,633	1,705	1,996	2,704
Total noninterest expense	13,873	12,272	10,618	9,154	8,063
Provision for loan losses	615	230	475	730	1.330
Income before taxes	3,598	3,106	2,437	2,092	1,693
Taxes	995	865	433	447	(869)
Net income	2,604	2,241	2,004	1,645	2,562
Diluted earnings per share	0.66	0.63	0.59	0.53	0.85*
Selected % Increases					
Total assets	11.07%	10.15%	14.24%	11.60%	24.06%
Total interest earning assets	11.97%	10.27%	14.62%	11.93%	25.58%
Total loans	17.52%	19.55%	20.38%	14.84%	11.99%
Total deposits	13.31%	3.30%	14.39%	10.10%	30.92%
Interest income	16.81%	8.64%	15.24%	12.89%	5.33%
Interest expense	23.30%	(2.21)%	(9.40)%	(19.09)%	(24.44)%
Noninterest income	14.15%	54.37%	(14.54)%	(26.19)%	221.37%
Noninterest expense	13.04%	15.58%	15.99%	13.54%	30.22%
Net income	16.20%	11.81%	21.86%	(35.81)%	121.75%
Selected Ratios					
Return on assets	0.60%	0.60%	0.59%	0.53%	0.97%
Return on equity	6.93%	6.60%	7.44%	6.60%	10.63%
Interest income to total average assets	4.13%	4.06%	3.81%	3.67%	3.79%
Interest expense to total average assets	0.36%	0.33%	0.35%	0.43%	0.61%
Net interest income to total average assets	3.77%	3.73%	3.46%	3.24%	3.18%
Loan loss reserve to total loans	0.96%	0.90%	1.00%	1.10%	1.21%
Nonperforming assets to total average assets	1.07%	1.13%	1.35%	11.42%	0.77%
Net charge-offs to total average assets	0.00%	0.00%	0.01%	0.03%	0.52%
Net interest margin	3.85%	3.80%	3.79%	3.56%	3.43%

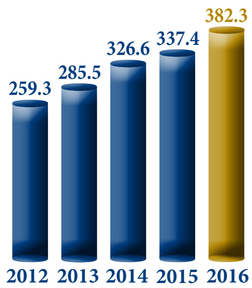
**Company became fully taxable in 2013.*

Income Before Taxes
($ in millions)

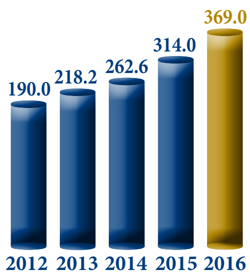


Total Assets
($ in millions)

Total Deposits
($ in millions)



Total Loans
($ in millions)



K. Wayne Wicker
Chairman
Chief Executive Officer

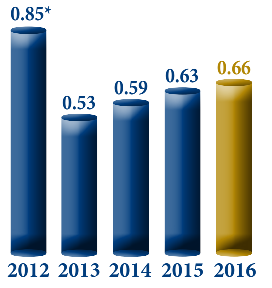
To our Shareholders and Friends

In 2016, South Atlantic Bancshares, Inc. achieved its best financial performance to date, continuing a string of profitable years dating back to year-end 2011. It was also a year of tremendous accomplishment for the company with expansion plans taking shape in the Charleston market and solid growth throughout our geographic footprint.

Earnings Continue Upward Trend

Net income grew 16.2 percent for the year ended December 31, 2016, to $2,603,929 or $0.66 per diluted share, compared to $2,240,817 or $0.63 per diluted share one year ago.

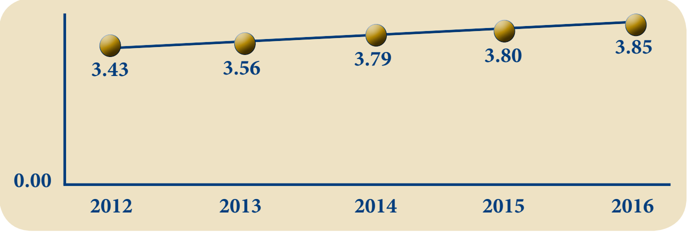
Diluted Earnings per Share
($, December 31)



**Company became fully taxable in 2013.*

Several factors contributed to the improvement in earnings. Net interest income increased 16.2 percent due to continued strong growth in the loan portfolio. The bank's mortgage operation also performed well, delivering double digit gains in volume of loans processed, closed loans, and fee income from the sale of loans in the secondary market that fueled a 14.1 percent increase in noninterest income. These gains outpaced expenses, which increased moderately and on par with the bank's overall growth. Additionally, our bank branches are located in regions where better economic conditions have signaled interest in expansions and new projects.

The burgeoning economy pushed the Federal Reserve to increase the Fed Funds rate by 25 basis points in December 2016, to a range of 0.50 to 0.75 percent. Future rate hikes will hinge on the speed of economic growth and the possibility of higher inflation due to too-rapid growth. Increases in the Fed Funds rate may help improve the net interest margin, because many loans in the portfolio are set to reprice with a change in the Prime Rate, while deposit rates increase more slowly based on competitive conditions. The net interest margin increased by five basis points, ending 2016 at 3.85 percent.



Net Interest Margin
(%, December 31)

Controlled Growth in the Balance Sheet

Total loans and total deposits continued to grow at similar levels for the bank in 2016. This controlled growth is essential to the bank's overall performance as it allows us to more effectively manage the deposit mix to fund the loan portfolio.

Total loans increased 17.5 percent in 2016, from $314.0 million at December 31, 2015, to $369.0 million at December 31, 2016. This pleasing growth is due to increased loan demand to fund new projects and business expansion. Our growing branch network, now six strong and spanning 130 miles of South Carolina coastline, has yielded increased loan production again this year. Competition for quality credits is fierce, but our lenders provide an unsurpassed level of service throughout every stage of the loan process that customers appreciate. It is this intangible that delivers repeat business and referrals to South Atlantic Bank.

Total deposits grew 13.3 percent in 2016, from $337.4 million at December 31, 2015, to $382.5 million at December 31, 2016. Deposits have grown primarily due to relationship building with prospects and existing customers alike. Our deposit products are designed to encourage customers to make South Atlantic Bank their primary bank, offering reduced fees and other benefits that reward the entire relationship.

Total assets grew 11.1 percent in 2016, from $400.2 million at December 31, 2015, to $444.5 million at December 31, 2016.

Market Share Demonstrates Banking Efficiency and Effectiveness

South Strand Market Share
(%, June 30)

Deposit market share data as of June 30, 2016, from the FDIC indicates that we are leveraging our offices and employees to great effect. In Horry and Georgetown counties, the bank ranked seventh overall in a field of 23 banks, all on the strength of our five Grand Strand locations. The top three banks have 17, 15, and 12 branches, respectively, in this two-county region. The South Strand is showing a lot of growth as our Pawleys Island location moved up to third place with market share of 13.48 percent; our Georgetown location more than doubled its market share; and the three South Strand locations combined improved their standing. The Murrells Inlet office continues to dominate the community, with a first place ranking within its zip code. Figures for Mount Pleasant are encouraging as well, nearly doubling when compared to last year in a large market with a lot of competitors.

Charleston Expansion Efforts

Work continues at the construction site on Johnnie Dodds Boulevard in Mount Pleasant. The first and second floors are dried in, shingles are on the roof of the drive-through, and the main roof will soon be completed. Inside, the layout of the bank branch is clearly visible, with work soon to begin on the drywall. This new facility, which will house the banking operation on the first floor and tenants on the second floor, underscores our commitment to the greater Charleston region, and will serve as a springboard to further growth.

There is news away from the construction site as well with the appointment of Michael C. Tawes, Sr., a Charleston businessman and native, to our board of directors. His expertise and knowledge will be an asset to us as we expand our base of operations in this dynamic market. We also continue to develop our team in the region, recently adding a commercial relationship manager to help with our lending efforts.

Looking Forward to 2017

It's been a busy and productive year for South Atlantic Bank. In addition to our banking progress, we continue to be a good corporate citizen, through sponsorships of special events and donations to charitable organizations that help to make our communities strong. As a high-performing bank, it is our duty to serve the community by providing useful banking products and services and giving back to the place we call home.

Reception to honor artists at Myrtle Beach Elementary School

With our 10th anniversary year now underway, we hope you are pleased with the progress of your company to date. Please plan to attend our 2017 Annual Meeting of Shareholders on April 18, 2017, at our Myrtle Beach headquarters, beginning at 5:30 p.m. As always, we appreciate your support.

K. Wayne Wicker

K. Wayne Wicker
Chairman
Chief Executive Officer

A Low Country Road Near Charleston, South Carolina

Focus on the Greater Charleston Region

South Atlantic Bank's considerable commitment to the Lowcountry is visible every day. You can see it in the staff of veteran bankers who know the market well, in the new office building now taking shape on Johnnie Dodds Boulevard, and in the marketing campaign that positions South Atlantic Bank as the community bank of choice for consumers and small to medium businesses.

Construction progress at Johnnie Dodds Boulevard, February 2017

The bank's story in the Lowcountry began in October 2013, with the opening of a loan production office in Mount Pleasant. Led by Ken Pickens, a graduate of The Citadel with nearly 35 years of banking experience, the new staff moved quickly to establish a base of operations from the small office on Queensborough Boulevard. The following summer, the office became a full service branch and its presence began to grow. Within two years, it was profitable, rapidly outgrowing its humble beginnings.

During this time, Charleston and Mount Pleasant, already well on their way to recovering from the economic turndown of 2008, began to achieve stellar growth. In addition to being a center for education, medicine, and tourism, the area now boasts robust manufacturing, warehousing, and technology industries. In fact, the technology boom has given rise to the moniker "Silicon Harbor" for the region.

Recent merger activity, which saw two community banks acquired by out of state rivals, has only heightened the need for a community bank of our caliber to serve the market. South Atlantic Bank's product menu matches up to its larger competitors, offering the technologically-advanced products today's consumers demand, all delivered with a level of service only a community bank can provide.

Scenes from the marketing campaign

The on-going marketing campaign emphasizes these strengths, focusing on quality service delivered by dedicated bankers, commitment to community, and local ownership and management. Media elements include cable television commercials and web takeovers, print ads, and radio spots. Additionally, the bank became a major sponsor of The Citadel athletics with a promotional package that spans the football, baseball, and basketball seasons.

The new office's prominent location on Johnnie Dodds Boulevard also packs marketing punch, heralding the bank's expansion in the market. Construction is proceeding well with completion expected in summer 2017. At that time, the nearby Queensborough Boulevard location will close, having served the bank and the market well for nearly four years.

South Atlantic Bank is in the right place at the right time, well-positioned to take advantage of the opportunities this dynamic market presents.

Technology and Security Key to New Products and Services

You can't go a day without seeing a news item about technology and security, and with good reason, as both play a major role in product development the world over.

It's no different in the banking industry, where customers flock to mobile banking apps and third party Wallet providers such as Apple Pay®, and use EMV-chipped debit and credit cards. Customers entrust banks with their money and it makes no difference if the funds are tucked away in a solid steel vault or accessed via the latest iPhone®. Customers want the instant access technology provides and rock solid security makes it happen.

At South Atlantic Bank, we're committed to the highest security standards for the technologically advanced products and services we offer. In turn, the technology allows customers to play a proactive role in keeping their accounts safe.

Our *go*Mobile app provides banking services normally found online or at the office in an easy-to-use format. Through the Manage Cards option, customers can report a South Atlantic Bank debit card lost or stolen immediately, helping to protect them and the bank from loss. Access to accounts via *go*Mobile is password protected.

With Apple Pay, customers can add their South Atlantic Bank debit cards to the Wallet on their iPhones for use at merchants that accept contactless payments. Apple Pay offers unparalleled convenience and the safety features are myriad. The Wallet can be accessed via Apple's biometric fingerprint authentication, called Touch ID®. Account information is not stored on the phone, but within a unique digital identifier that is used to process information without exposing card details.

Another security tool was added to the arsenal in 2016 when the bank issued new, EMV-chipped credit and debit cards to its customers. The latest in fraud-fighting technology, the chip contains the cardholder's name, card number, and additional account information, but no other personal information. Each time the card is used, the chip produces a unique code to validate the transaction, making it difficult for the card to be duplicated, deterring a large source of fraud.

Technology also provides better security through monitoring programs such as the FICO Falcon Fraud Manager implemented in 2016. FICO Falcon uses a sophisticated scoring system based on customer card use. If fraud is suspected, the customer is notified using a combination of e-mails, texts, and phone calls, and responding is easy. It's a companion service to *sms*Guardian, which issues text alerts for debit card transactions meeting certain characteristics that could indicate fraudulent use.

With a focus on security in technology, South Atlantic Bank provides a safe environment for customers online and on the go.

Apple Pay, iPhone, and Touch ID are trademarks of Apple, Inc., registered in the U.S. and other countries.

elliott davis decosimo

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, 2016 and 2015, 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, 2016 and 2015, 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, 2017

South Atlantic Bancshares, Inc. and Subsidiary
Consolidated Balance Sheets

	December 31, 2016	December 31, 2015
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 7,175,777	$ 7,786,177
Federal funds sold and interest-bearing deposits	56,974	669,921
Total cash and cash equivalents	7,232,751	8,456,098
Investment securities:		
Securities available-for-sale	42,636,300	51,820,345
Nonmarketable equity securities	997,000	963,600
Total investment securities	43,633,300	52,783,945
Mortgage loans held-for-sale	1,528,648	4,948,927
Loans receivable	367,462,179	309,038,587
Less allowance for loan losses	3,524,371	2,830,686
Loans, net	363,937,808	306,207,901
Premises, furniture and equipment, net	16,080,888	16,466,268
Bank-owned life insurance	8,980,392	8,727,884
Accrued interest receivable	1,298,317	1,306,961
Other assets	1,840,907	1,319,641
Total assets	**$ 444,533,011**	**$ 400,217,625**
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 78,982,061	$ 69,223,273
Interest-bearing transaction accounts	20,973,643	41,010,275
Savings and money market accounts	224,492,575	178,212,598
Time deposits $250,000 and over	31,040,095	19,076,339
Other time deposits	26,774,300	29,839,438
Total deposits	382,262,674	337,361,923
Advances from Federal Home Loan Bank	15,000,000	15,000,000
Federal funds purchased	9,042,700	11,889,500
Accrued interest payable	33,020	22,115
Other liabilities	754,818	299,160
Total liabilities	$ 407,093,212	$ 364,572,698
Commitments and contingencies (Notes 12, 14 and 19)		
Shareholders' equity:		
Preferred stock, $1.00 par value per share, 5,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, $1.00 par value, 25,000,000 shares authorized; 3,831,322 and 3,829,672 shares issued and outstanding at December 31, 2016 and 2015, respectively	3,831,322	3,829,672
Capital surplus	32,001,966	31,984,379
Retained earnings	2,603,929	–
Accumulated other comprehensive income (loss)	(997,418)	(169,124)
Total shareholders' equity	37,439,799	35,644,927
Total liabilities and shareholders' equity	**$ 444,533,011**	**$ 400,217,625**

See accompanying Notes to Consolidated Financial Statements.

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

	For the Years Ended December 31, 2016	2015
Interest income:		
Loans, including fees	$ 15,573,980	$ 13,161,794
Securities available-for-sale	836,719	932,199
Federal funds sold and interest-bearing deposits	102,398	43,020
Total	16,513,097	14,137,013
Interest expense:		
Deposits	1,377,662	1,137,627
Other borrowings	54,183	23,602
Total	1,431,845	1,161,229
Net interest income	**15,081,252**	**12,975,784**
Provision for loan losses	615,000	230,000
Net interest income after provision for loan losses	**14,466,252**	**12,745,784**
Noninterest income:		
Mortgage origination income	1,133,350	874,983
Merchant fee income	409,915	448,545
Service charges on deposit accounts	200,269	188,604
Gain on sale of investment securities	337,113	270,353
Bank-owned life insurance income	252,508	197,508
Gain on sale of loans	–	56,642
Other fee income	672,152	596,081
Total noninterest income	3,005,307	2,632,716
Noninterest expenses:		
Salaries and employee benefits	8,187,602	7,225,454
Net occupancy	1,076,315	948,173
Furniture and equipment	516,329	498,669
FDIC banking assessments	294,714	217,183
Advertising	523,306	486,963
Data processing fees	465,475	404,931
Other operating expenses	2,809,338	2,491,087
Total noninterest expenses	13,873,079	12,272,460
Income before income taxes	**3,598,480**	**3,106,040**
Income taxes	994,551	865,223
Net income	**$ 2,603,929**	**$ 2,240,817**
Income per common share:		
Basic income per common share	**$ 0.68**	**$ 0.65**
Average common shares outstanding – basic	3,830,073	3,457,666
Diluted income per common share	**$ 0.66**	**$ 0.63**
Average common shares outstanding – diluted	3,963,747	3,584,887

See accompanying Notes to Consolidated Financial Statements.

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

	For the Years Ended December 31, 2016	2015
Net income	**$ 2,603,929**	**$ 2,240,817**
Other comprehensive income		
Unrealized gain (loss) on securities available-for-sale	(1,023,558)	231,908
Reclassification adjustment for gains realized in net income	(337,113)	(270,353)
Net unrealized losses on securities	(1,360,671)	(38,445)
Income tax benefit	532,377	9,227
Net-of-tax amount	(828,294)	(29,218)
Comprehensive income	**$ 1,775,635**	**$ 2,211,599**

See accompanying Notes to Consolidated Financial Statements.

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

For the Years Ended December 31, 2016 and 2015

	Common Stock Shares	Common Stock Amount	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
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 benefit 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**
Net income	–	–	–	2,603,929	–	2,603,929
Other comprehensive loss net of tax benefit of $532,377	–	–	–	–	(828,294)	(828,294)
Stock and warrant compensation expense	–	–	3,479	–	–	3,479
Proceeds from exercise of stock options	1,650	1,650	14,108	–	–	15,758
Balance, December 31, 2016	**3,831,322**	**$ 3,831,322**	**$32,001,966**	**$ 2,603,929**	**$ (997,418)**	**$37,439,799**

See accompanying Notes to Consolidated Financial Statements.

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

	For the Years Ended December 31, 2016	2015
Operating activities:		
Net income	$ 2,603,929	$ 2,240,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	615,000	230,000
Depreciation expense	750,168	746,787
Discount accretion and premium amortization	549,505	845,699
Stock and warrant compensation expense	3,479	2,908
Gain on sale of securities	(337,113)	(270,353)
Deferred taxes	79,008	(696,108)
Amortization of deferred loan costs and fees, net	19,872	130,707
Write downs of other real estate owned	–	12,500
Loss on sale of other real estate owned	–	19,811
Increase in cash surrender value of bank owned life insurance	(252,508)	(197,508)
Decrease in accrued interest receivable	8,644	68,946
Increase (decrease) in accrued interest payable	10,905	(4,369)
(Increase) decrease in other assets	(67,897)	296,996
Increase (decrease) in other liabilities	455,657	(2,915,542)
Net cash provided by operating activities	4,438,649	1,903,507
Investing activities:		
Purchase of securities available-for-sale	(27,272,011)	(32,411,175)
Proceeds from sales of securities available-for-sale	31,112,085	25,802,522
Proceeds from maturities, calls, and paydowns of securities available-for-sale	3,770,908	6,494,891
(Purchase) sale of nonmarketable equity securities	(33,400)	(677,300)
Net increase in loans	(54,944,500)	(51,496,083)
Purchase of bank-owned life insurance	–	(3,000,000)
Purchases of premises, furniture and equipment	(364,788)	(437,546)
Proceeds from sale of other real estate owned	–	69,454
Net cash used by investing activities	(47,731,706)	(55,655,237)
Financing activities:		
Increase in noninterest-bearing deposits	9,758,788	997,281
Increase in interest-bearing deposits	35,141,964	9,770,690
Increase (decrease) in notes payable	–	(1,271,000)
Proceeds from Federal Home Loan Bank Advances	79,500,000	28,500,000
Repayments of Federal Home Loan Bank Advances	(79,500,000)	(13,500,000)
Decrease in Federal funds purchased	(2,846,800)	11,889,500
Proceeds from exercise of stock options	15,758	–
Proceeds from stock offering, net	–	1,188,625
Net cash provided by financing activities	42,069,710	37,575,096
Net increase (decrease) in cash and cash equivalents	(1,223,347)	(16,176,634)
Cash and cash equivalents, beginning of year	8,456,098	24,632,732
Cash and cash equivalents, end of year	$ 7,232,751	$ 8,456,098
Cash paid during the year for:		
Interest	$ 1,420,940	$ 1,165,598
Income taxes	$ 913,780	$ 77,000
Noncash investing and financing activities:		
Unrealized loss on securities available-for-sale	$ 1,360,671	$ 38,445

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, 2016 and 2015, the investment in Federal Home Loan Bank stock was $997,000 and $963,600, respectively. Dividends received on the stock are 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 evaluation. 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.

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 2016 and 2015.

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 an 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 May 2014, the Financial Accounting Standards Board (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 reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. 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 Accounting Standards Update (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 reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified 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 ASC 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 amended the Leases topic of the ASC to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB amended several topics of the ASC to make the guidance in all private company accounting alternatives effective immediately by removing their effective dates. The amendments also include transition provisions that provide that private companies are able to forgo a preferability assessment the first time they elect the private company accounting alternatives. The amendments were effective immediately. These amendments did not have a material effect on the Company's financial statements.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB amended the Statement of Cash Flows topic of the ASC to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In October 2016, the FASB amended the Income Taxes topic of the ASC to modify the accounting for intra-entity transfers of assets other than inventory. The amendments will be effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2016, the FASB issued amendments to clarify the 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 (December 14, 2016) 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, 2016. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

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

Risks and Uncertainties

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

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

Reclassifications

Certain captions and amounts in the 2015 consolidated financial statements were reclassified to conform with the 2016 presentation. Any such reclassifications had no impact of net income, earnings per common share, or shareholders' equity.

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 amount of the required cash reserve balances at December 31, 2016 and 2015 was approximately $703,000 and $1,552,000 respectively.

Note 3. Investment Securities

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

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 17,708,559	$ 132,449	$ 283,956	$ 17,557,052
SBA loan pools	3,054,723	–	40,926	3,013,797
Obligations of state and local governments	23,456,221	54,562	1,445,332	22,065,451
Total investment securities	**$ 44,219,503**	**$ 187,011**	**$1,770,214**	**$42,636,300**

	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**

The following is a summary of maturities of securities available-for-sale as of December 31, 2016. 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	1,059,753	1,048,966
Due after five years but within ten years	17,565,863	16,675,389
Due after ten years	7,885,328	7,354,893
Mortgage-backed securities	17,708,559	17,557,052
Total	**$ 44,219,503**	**$ 42,636,300**

The following tables show 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.

Available-for-Sale	December 31, 2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 10,502,250	$ 283,956	$ –	$ –	$ 10,502,250	$ 283,956
SBA loan pools	765,409	7,577	2,248,388	33,349	3,013,797	40,926
Obligations of state and local governments	19,036,881	1,445,332	–	–	19,036,881	1,445,332
Total	**$ 30,304,540**	**$ 1,736,865**	**$ 2,248,388**	**$ 33,349**	**$ 32,552,928**	**$ 1,770,214**

Available-for-Sale	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	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**

There were two securities with an unrealized loss for greater than twelve months at December 31, 2016 and nine at December 31, 2015.

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 2016 and 2015 totaled $31,112,085 and $25,802,522, respectively. Sales of securities during 2016 resulted in gross realized gains of $661,528 and gross realized losses of $324,415. Sales of securities during 2015 resulted in gross realized gains of $325,108 and gross realized losses of $54,755.

At December 31, 2016, a security with a book value of $643,388 and a market value of $630,633 was pledged to secure public funds. 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.

Note 4. Loans Receivable

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

	2016	2015
Commercial	$ 26,684,237	$ 24,249,172
Commercial real estate	219,220,972	178,905,360
Consumer	3,039,514	2,929,434
Consumer real estate	118,537,328	103,085,328
Total gross loans	367,482,051	309,169,294
Less: Unearned origination fees, net	19,872	130,707
Allowance for loan losses	3,524,371	2,830,686
Loans, Net	**$ 363,937,808**	**$ 306,207,901**

The following is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the year ended December 31, 2016:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for loan losses:					
Beginning balance	$ 149,124	$ 2,015,664	$ 16,288	$ 649,610	$ 2,830,686
Charge-offs	(13,940)	–	(383)	–	(14,323)
Recoveries	74,000	10,426	8,582	–	93,008
Provisions	(22,547)	435,874	(5,156)	206,829	615,000
Ending Balance	**$ 186,637**	**$ 2,461,964**	**$ 19,331**	**$ 856,439**	**$ 3,524,371**
Ending Balances:					
Individually evaluated for impairment	$ –	$ 552,000	$ –	$ 26,000	$ 578,000
Collectively evaluated for impairment	$ 186,637	$ 1,909,964	$ 19,331	$ 830,439	$ 2,946,371
Loans receivable:					
Ending balance – total	**$ 26,684,237**	**$219,220,972**	**$ 3,039,514**	**$118,537,328**	**$367,482,051**
Ending balances:					
Individually evaluated for impairment	$ –	$ 3,006,751	$ 52,145	$ 511,521	$ 3,570,417
Collectively evaluated for impairment	$ 26,684,237	$ 216,214,221	$ 2,987,369	$ 118,025,807	$ 363,911,634

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

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for loan losses:					
Beginning balance	$ 248,285	$ 1,682,236	$ 47,236	$ 647,040	$ 2,624,797
Charge-offs	–	–	(14,661)	(84,767)	(99,428)
Recoveries	74,800	–	517	–	75,317
Provisions	(173,961)	333,428	(16,804)	(87,337)	230,000
Ending Balance	**$ 149,124**	**$ 2,015,664**	**$ 16,288**	**$ 649,610**	**$ 2,830,686**
Ending Balances:					
Individually evaluated for impairment	$ –	$ 694,000	$ –	$ –	$ 694,000
Collectively evaluated for impairment	$ 149,124	$ 1,321,664	$ 16,288	$ 649,610	$ 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

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, 2016:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 26,684,237	$ 213,541,098	$ 2,987,369	$ 117,825,121	$ 361,037,825
Special mention	–	2,826,181	–	–	2,826,181
Substandard	–	2,853,693	52,145	712,207	3,618,045
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**$ 26,684,237**	**$219,220,972**	**$ 3,039,514**	**$118,537,328**	**$367,482,051**

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 a past due aging analysis of our loan portfolio at December 31, 2016:

	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	$ –	$ –	$ –	$ –	$ 26,684,237	$ 26,684,237	$ –
Commercial Real Estate	–	–	–	–	219,220,972	219,220,972	–
Consumer	–	–	–	–	3,039,514	3,039,514	–
Consumer Real Estate	–	–	–	–	118,537,328	118,537,328	–
Total	**$ –**	**$ –**	**$ –**	**$ –**	**$367,482,051**	**$367,482,051**	**$ –**

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 Real Estate	–	–	–	–	178,905,360	178,905,360	–
Consumer	–	–	–	–	2,929,434	2,929,434	–
Consumer Real Estate	–	–	–	–	103,085,328	103,085,328	–
Total	**$ –**	**$ –**	**$ –**	**$ –**	**$309,169,294**	**$309,169,294**	**$ –**

The following is an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ –	$ –	$ –	$ –	$ –
Commercial Real Estate	597,750	597,750	–	604,354	23,101
Consumer	52,145	52,145	–	55,464	2,054
Consumer Real Estate	109,971	214,319	–	117,024	2,091
With an allowance recorded:					
Commercial	–	–	–	–	–
Commercial Real Estate	2,409,001	2,409,001	552,000	1,509,358	27,099
Consumer	–	–	–	–	–
Consumer Real Estate	401,550	401,550	26,000	401,627	20,058
Total:					
Commercial	–	–	–	–	–
Commercial Real Estate	3,006,751	3,006,751	552,000	2,113,712	50,200
Consumer	52,145	52,145	–	55,464	2,054
Consumer Real Estate	511,521	615,869	26,000	518,651	22,149
Total	**$ 3,570,417**	**$ 3,674,765**	**$ 578,000**	**$ 2,687,827**	**$ 74,403**

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	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	–	–	–	–	–
Consumer Real Estate	–	–	–	–	–
Total:					
Commercial	–	–	–	–	–
Commercial Real Estate	2,505,474	2,505,474	694,000	2,533,778	69,040
Consumer	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 nonaccrual loan portfolio recorded at December 31:

	2016	2015
Commercial	$ –	$ –
Commercial real estate	–	–
Consumer	–	–
Consumer real estate	401,550	401,663
Total	**$ 401,550**	**$ 401,663**

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.

During the year ended December 31, 2016, the bank did not identify any loans as TDRs and no loans previously identified as TDRs went into default (as defined by non-accrual classification).

The following is an analysis of TDRs identified during 2015:

	For the year ended December 31, 2015		
Trouble 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 five 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.

Note 5. Premises, Furniture and Equipment

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

	2016	**2015**
Land	$ 5,421,993	$ 5,421,993
Buildings and leasehold improvements	10,920,337	10,900,094
Furniture and equipment	3,408,844	3,277,132
Software	625,885	587,648
Automobile	40,909	40,909
Construction in progress	196,086	21,490
Total	20,614,054	20,249,266
Less accumulated depreciation	4,533,166	3,782,998
Premises, furniture and equipment, net	**$ 16,080,888**	**$ 16,466,268**

Depreciation expense for the years ended December 31, 2016 and 2015 was $750,168 and $746,787, respectively.

Note 6. Deposits

At December 31, 2016, the scheduled maturities of time deposit are as follows:

2017	$ 33,553,601
2018	6,740,306
2019	356,714
2020	16,759,504
2021	404,270
Total	**$ 57,814,395**

The bank had brokered deposits of $12,000,000 and $15,685,000 as of December 31, 2016 and 2015, respectively. Interest expense on time deposits that meet or exceed the FDIC insurance limit of $250,000 was $368,402 for the year ended December 31, 2016.

Note 7. Advances from Federal Home Loan Bank

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

Description	Current Interest Rate	2016	2015
FHLB advances maturing			
January 4, 2016	0.33%	$ –	$ 5,000,000
February 2, 2016	0.34%	–	10,000,000
February 8, 2017	0.61%	5,000,000	–
February 21, 2017	0.66%	10,000,000	–
Total		**$ 15,000,000**	**$ 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, 2016, the pledged collateral totaled approximately $40.3 million. Certain advances are subject to prepayment penalties.

Note 8. 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, terminate ten years after the date of the grant, and vest ratably over five years.

During 2016, 1,650 options were exercised, which leaves 390,656 exercisable options at December 31, 2016. These options have a weighted average exercise price of $8.31. Total compensation expense related to stock options was $3,479 and $2,908 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, there was $3,479 of total unrecognized compensation cost related to nonvested stock options.

Intrinsic value is calculated for shares outstanding and exercisable by taking the most recent value of the Company's common stock as of December 31, 2016 and 2015 and subtracting the exercise price of each option grant. When the result is a positive number, the difference is multiplied by the number of options outstanding for each such grant. As of December 31, 2016, the common stock value used for this calculation was the closing price of the stock on December 30, 2016. As of December 31, 2015, the value used was the offering price of the Company's 2014 stock offering, as discussed in Note 18, as a public stock value was not available. At December 31, 2016 and 2015, the aggregate intrinsic value of shares outstanding and exercisable was $3,003,809 and $1,052,921, respectively.

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

	2016	2015
Number of options	390,656	392,306
Weighted average remaining life	1 year	2 years
Weighted average exercise price	$ 8.31	$ 8.32
High exercise price	$ 9.55	$ 9.55
Low exercise price	$ 8.26	$ 8.26
Aggregate intrinsic value	$ 3,003,809	$ 1,052,921

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

	2016 Shares	2016 Weighted Average Grant-Date Fair Value	2015 Shares	2015 Weighted Average Grant-Date Fair Value
Nonvested at the beginning of year	10,230	$ 1.02	13,640	$ 1.02
Granted	–	–	–	–
Vested	3,410	1.02	3,410	1.02
Forfeited	–	–	–	–
Nonvested at end of year	6,820	$ 1.02	10,230	$ 1.02

Note 9. 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 2016 and 2015, no warrants were issued or cancelled. At December 31, 2016, there were 108,900 outstanding and exercisable. These warrants will expire in 2017 unless otherwise extended.

Note 10. Income Taxes

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

	2016	2015
Current income tax expense:		
Federal	$ 856,501	$ 117,973
State	59,042	51,142
Total	915,543	169,115
Deferred income tax expense (benefit):		
Federal	121,980	750,191
State	(42,972)	(54,083)
Total	79,008	696,108
Income tax expense	**$ 994,551**	**$ 865,223**

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

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 855,774	$ 638,476
Net operating loss carryforward	7,569	460,256
Organization and start-up costs	98,147	114,971
Federal and state credits	527,953	436,109
Unrealized loss on securities available-for-sale	585,785	53,408
Deferred compensation	123,852	–
Other	3,281	2,502
Total deferred tax assets	2,202,361	1,705,722
Valuation allowance	(8,318)	(7,483)
Net deferred tax assets	2,194,043	1,698,239
Deferred tax liabilities:		
Accumulated depreciation	1,516,171	1,552,072
Loan origination costs	200,602	130,872
Prepaid expenses	17,936	9,330
Total deferred tax liabilities	1,734,709	1,692,274
Net deferred tax asset	$ 459,334	$ 5,965

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, 2016 and 2015. 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, 2016 and 2015 a small valuation allowance in the amount of $8,318 and $7,483, respectively, remains for state holding company losses. Net deferred tax assets are recorded in other assets on the Company's consolidated balance sheet.

The Company did not have any federal net operating loss carryforward as of December 31, 2016. As of December 31, 2015, the company had a federal net operating loss carryforward for income tax purpose of $1,334,268. The Company has a state net operating loss carryforward of $229,364 and $200,159 as of December 31, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Tax expense at statutory rate	$ 1,223,483	$ 1,056,054
State income tax, net of federal income tax benefit	10,606	(1,941)
Change in valuation allowance	835	1,632
Cash surrender value of life insurance	(85,853)	(67,153)
Other municipal income	(189,935)	(188,350)
Other	35,415	64,981
Income tax expense	**$ 994,551**	**$ 865,223**

Tax returns for 2013 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 11. 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, 2016 and 2015, the Bank recognized $143,669 and $127,117, 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 or service in a Plan year is eligible to participate in the KSOP. The Company recognizes expense when the contribution is approved by the Board of Directors. There was no expense for the years ended December 31, 2016 and 2015. Total shares owned by the KSOP were 74,208 and 73,658 at December 31, 2016 and 2015, respectively.

The Bank has a Salary Continuation Plan (the "Plan") for certain senior officers. The Plan provides an annual post-retirement cash payment beginning after a chosen retirement date for certain officers of the Bank. The officers will receive an annual payment from the Bank equal to the promised benefits. In connection with this plan, life insurance contracts were purchased on the officers. The cash value of the life insurance contracts increased $252,508 and $197,508 for the years ended December 31, 2016 and 2015, respectively and are included in noninterest income. Cash values of the policies were $8,980,392 and $8,727,884 at December 31, 2016 and 2015, respectively. The corresponding liability associated with the Plan was $285,072 at December 31, 2016 and is included in other liabilities. There was no associated liability at December 31, 2015.

The Bank also has a Director Retirement Plan ("Director Plan") for its Board of Directors. The Director Plan provides an additional source of retirement income to a Director for a period of time upon their separation from the Bank in recognition of their service to the Bank. The corresponding liability associated with the Director Plan was $79,200 at December 31, 2016. There was no associated liability at December 31, 2015.

Note 12. Leases

The Bank has entered into agreements to lease various office facilities under non-cancellable operating lease agreements. Lease expense totaled $255,024 and $124,407 for the years ended December 31, 2016 and December 31, 2015, 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:

2017	$ 315,590
2018	552,798
2019	520,173
2020	488,750
2021 and thereafter	7,322,673
Total	**$ 9,199,984**

The Company is leasing a portion of its Murrells Inlet location to an unrelated tenant. Lease income generated from this tenant totaled $27,234 and $52,721 during the years ended December 31, 2016 and 2015, respectively.

Note 13. 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, 2016 and 2015, the Company had related party loans totaling $7,849,278 and $7,685,909, respectively.

Deposits by directors, including their affiliates and executive officers, were approximately $29,832,774 and $19,151,779 at December 31, 2016 and 2015, respectively.

Note 14. 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 15. 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:

	2016	2015
Income per common share – basic computation:		
Net income	$ 2,603,929	$ 2,240,817
Average common shares outstanding – basic	3,830,073	3,457,666
Basic income per common share	**$ 0.68**	**$ 0.65**
Income per common share – diluted computation:		
Net income	$ 2,603,929	$ 2,240,817
Average commons shares outstanding – basic	3,830,073	3,457,666
Incremental shares from assumed conversions:		
Stock options and warrants	133,674	127,221
Average common shares outstanding – diluted	3,963,747	3,584,887
Diluted income per common share	**$ 0.66**	**$ 0.63**

Note 16. 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. The capital conservation buffer in effect for the year ended December 31, 2016 was 0.625%.

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, 2016 and 2015.

	Actual		For capital adequacy purposes Minimum		To be well-capitalized under prompt corrective action provisions Minimum	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2016						
Total capital (to risk-weighted assets)	$ 39,654,000	11.04%	$ 28,746,000	8.00%	$ 35,932,000	10.00%
Tier 1 capital (to risk-weighted assets)	36,130,000	10.06%	21,559,000	6.00%	28,746,000	8.00%
Tier 1 capital (to average assets)	36,130,000	8.24%	17,548,000	4.00%	21,936,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	36,130,000	10.06%	16,169,000	4.50%	23,356,000	6.50%
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%

Note 17. Unused Lines of Credit

As of December 31, 2016, the Company had available lines of credit to purchase federal funds from unrelated banks totaling $32,500,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. As of December 31, 2016, the balance outstanding on the lines was $9,042,700. At December 31, 2015, the balance outstanding on the lines was $11,889,500.

The Company also has an additional line of credit with the Federal Home Loan Bank with available funds totaling $40,341,000. As of December 31, 2016 and December 31, 2015, the balance outstanding on this line was $15,000,000.

Note 18. 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. During 2015, the Company received additional gross proceeds of $1,203,972 and incurred offering costs of $15,347, resulting in the issuance of 109,452 additional 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, 2016, the Bank had no retained earnings available for dividends.

Note 19. 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, 2016 and 2015 whose contract amounts represent credit risk:

	2016	2015
Commitments to extend credit	$ 59,892,000	$ 45,104,000
Letters of credit	1,981,000	2,978,000
Total	**$ 61,873,000**	**$ 48,082,000**

Note 20. 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, 2016 and 2015, 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, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Obligations of state and local governments	$ 22,065,451	$ –	$ 22,065,451	$ –
Mortgage-backed securities	17,557,052	–	17,557,052	–
SBA loan pools	3,013,797	–	3,013,797	–
Loans held-for-sale	1,528,648	–	1,528,648	–
Total	**$ 44,164,948**	**$ –**	**$ 44,164,948**	**$ –**

	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**	**$ –**

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, 2016 and 2015, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2016 and 2015.

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans:				
Commercial	$ –	$ –	$ –	$ –
Commercial real estate	2,454,751	–	2,454,751	–
Consumer	52,145	–	52,145	–
Consumer real estate	485,521	–	485,521	–
Total impaired loans	**$ 2,992,417**	**–**	**$ 2,992,417**	**–**

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

Note 21. 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

	2016	2015
Assets		
Cash:	$ 1,291,168	$ 3,314,140
Investment in bank subsidiary	35,317,587	31,521,767
Other assets	831,044	809,020
Total assets	**$ 37,439,799**	**$ 35,644,927**
Liabilities and shareholders' equity		
Shareholders' equity	37,439,799	35,644,927
Total liabilities and shareholders' equity	**$ 37,439,799**	**$ 35,644,927**

Condensed Statements of Income

	2016	2015
Income	$ –	$ –
Expenses:		
Salaries and benefits	3,479	2,908
Other	25,313	49,462
Total	28,792	52,370
Loss before income taxes and equity in undistributed income of banking subsidiary:	(28,792)	(52,370)
Income tax benefit	8,607	20,207
Equity in undistributed income of banking subsidiary	2,624,114	2,272,980
Net income	**$ 2,603,929**	**$ 2,240,817**

Condensed Statements of Cash Flows

	2016	2015
Operating activities:		
Net income	$ 2,603,929	$ 2,240,817
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed income of banking subsidiary	(2,624,114)	(2,272,980)
Stock and warrant compensation expense	3,479	2,908
Increase in investment in bank	(2,000,000)	–
Decrease in accrued expenses and other liabilities	–	(67,500)
Increase in other assets	(22,024)	(26,873)
Net cash used in operating activities	(2,038,730)	(123,628)
Financing activities:		
Proceeds from stock offering, net	–	1,188,625
Proceeds from exercise of stock options	15,758	–
Repayment of notes payable	–	(1,271,000)
Net cash (used in) provided by financing activities	15,758	(82,375)
Net decrease in cash and cash equivalents	(2,022,972)	(206,003)
Cash, beginning of year	**$ 3,314,140**	**$ 3,520,143**
Cash, end of year	$ 1,291,168	$ 3,314,140

Note 22. 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, 2017, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

Officers and Locations

Executive Officers

K. Wayne Wicker
Chairman
Chief Executive Officer

R. Scott Plyler
President

Richard N. Burch
Executive Vice President
Chief Financial Officer

C. Alec Elmore
Executive Vice President
Chief Credit Officer

Travis A. Minter
Executive Vice President
Director of Mortgage Loans

Kenneth M. Pickens
Executive Vice President
Charleston Regional Executive

Mary Jo Rogers
Executive Vice President
Grand Strand Regional Executive

Accounting

Melissa K. Downs-High
Senior Vice President
Controller

Kathy M. Doane
Assistant Vice President
Senior Financial Accountant

Administration

Candace L. Cherry
Senior Vice President
Corporate Liaison

Compliance

Tanya W. Slavin
Vice President
Director of Compliance

Credit Risk

David C. Mann
Senior Vice President
Credit Risk Officer

Deposit Operations

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

Yolonda F. Bryant
Assistant Vice President
Deposit Operations Specialist

Amy B. Stubbs
Assistant Vice President
Deposit Operations Specialist

Human Resources

Carrie S. Harris
Senior Vice President
Director of Human Resources

Loan Operations

Anne B. Cote
Senior Vice President
Director of Loan Operations

Karen M. Atwood
Vice President
Loan Documentation Manager

Deborah B. Atkins
Assistant Vice President
Loan Administration Specialist

Sharon B. Vane
Banking Officer
Loan Operations Specialist

Marketing

Barbara W. Marshall
Senior Vice President
Director of Marketing

Beth W. Branham
Banking Officer
Marketing Assistant

Merchant Services

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

Caroline P. Springs
Banking Officer
Merchant Sales and Service Representative

Mortgage Services

Susan O. Burton
Vice President
Mortgage Loan Operations Manager

Peter M. Insabella
Vice President
Mortgage Loan Officer

Adam M. Paskanik
Vice President
Mortgage Loan Officer

Donna L. Spitzer
Assistant Vice President
Mortgage Processor/Underwriter

Danielle Martin-Ebert
Banking Officer
Mortgage Loan Processor

Leah M. Rodriguez
Banking Officer
Mortgage Loan Officer

Myrtle Beach

Paul E. Peeples
Senior Vice President
Myrtle Beach Regional Executive

Michelle A. Coletta
Vice President
Regional Business Development Officer

Alison Van Wagner
Banking Officer
Assistant Branch Manager

Murrells Inlet

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

Denise F. Brown
Vice President
Regional Business Development Officer

North Myrtle Beach

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

Allison A. Cabaniss
Vice President
Regional Business Development Officer

Pawleys Island

Drew S. Johnson
Senior Vice President
Waccamaw Neck Regional Executive

Donna M. Murphy
Vice President
Regional Business Development Officer

Shirley Y. Kulcsar
Assistant Vice President
Loan Assistant

Georgetown

Daniel F. Siau
Senior Vice President
Georgetown City Regional Executive

Mary I. Lee
Vice President
Regional Business Development Officer

Yvette F. Morgan
Assistant Vice President
Loan Assistant

Mount Pleasant

Brian J. Michel
Senior Vice President
Commercial Relationship Manager

Kurt S. Seguer
Senior Vice President
Commercial Relationship Manager

J. Eric Wooten
Vice President
Commercial Relationship Manager

Christy P. Chumney
Assistant Vice President
Loan Assistant

Cari L. Henderson
Assistant Vice President
Regional Business Development Officer

Locations

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Murrells Inlet
11019 Tournament Boulevard
Murrells Inlet, SC 29576
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Pawleys Island
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Pawleys Island, SC 29585
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Georgetown, SC 29440
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Front row seated from left to right: R. Scott Plyler; Martha S. Lewis; and Richard N. Burch. Back row from left to right: James Carson Benton, Jr.; Albert A. Springs, IV; Zeb M. Thomas, Jr.; Miles M. Herring; K. Wayne Wicker; Tony K. Cox; Jack L. Springs, Jr.; Thomas C. Brittain; and Michael C. Tawes, Sr.

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

Thomas C. Brittain
Attorney at Law
Brittain Law Firm, P.A.

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 Owner
Krispy Kreme Doughnuts

Martha S. Lewis
Senior Physical Therapist
NextStep Rehabilitation

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

Michael C. Tawes, Sr.
Partner
Valbridge Property Advisors
Atlantic Appraisals

Zeb M. Thomas, Jr.
Retired Hotelier

K. Wayne Wicker
Chairman of the Board
Chief Executive Officer
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