South Atlantic Bancshares, Inc. and Subsidiary

Report on Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

Contents

elliott davis

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, 2017 and 2016, 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 from 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, 2017 and 2016, 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, LLC

Columbia, South Carolina
March 7, 2018

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2017 and 2016

		2017		2016
Assets:				
Cash and cash equivalents:				
Cash and due from banks	$	11,848,718	$	7,175,777
Federal funds sold and interest-bearing deposits		8,537,780		56,974
Total cash and cash equivalents		20,386,498		7,232,751
Investment securities:				
Securities available-for-sale		35,854,923		42,636,300
Nonmarketable equity securities		1,037,000		997,000
Total investment securities		36,891,923		43,633,300
Mortgage loans held-for-sale		1,865,265		1,528,648
Loans receivable		434,917,988		367,462,179
Less allowance for loan losses		3,748,508		3,524,371
Loans, net		431,169,480		363,937,808
Premises, furniture and equipment, net		16,374,558		16,080,888
Bank-owned life insurance		9,225,239		8,980,392
Accrued interest receivable		1,517,998		1,298,317
Other assets		1,697,958		1,840,907
Total assets	**$**	**519,128,919**	**$**	**444,533,011**
Liabilities:				
Deposits:				
Noninterest-bearing transaction accounts	$	67,667,405	$	78,982,061
Interest-bearing transaction accounts		23,445,832		20,973,643
Savings and money market accounts		277,636,155		224,492,575
Time deposits $250,000 and over		31,014,355		31,040,095
Other time deposits		39,462,231		26,774,300
Total deposits		439,225,978		382,262,674
Advances from Federal Home Loan Bank		15,000,000		15,000,000
Federal funds purchased		–		9,042,700
Accrued interest payable		53,166		33,020
Other liabilities		4,203,331		754,818
Total liabilities		**458,482,475**		**407,093,212**
Commitments and contingencies (Notes 13, 15 and 20)				
Shareholders' equity:				
Preferred stock, $1.00 par value per share, 5,000,000 shares authorized; no shares issued and outstanding		–		–
Common stock, $1.00 par value, 25,000,000 shares authorized; 6,423,797 and 3,831,322 shares issued and outstanding at December 31, 2017 and 2016, respectively		6,423,797		3,831,322
Capital surplus		54,366,837		32,001,966
Retained earnings		–		2,603,929
Accumulated other comprehensive loss		(144,190)		(997,418)
Total shareholders' equity		60,646,444		37,439,799
Total liabilities and shareholders' equity	**$**	**519,128,919**	**$**	**444,533,011**

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 2017 and 2016

	2017	2016
Interest income:		
Loans, including fees	$ 18,938,716	$ 15,573,980
Securities available-for-sale	1,021,661	836,719
Federal funds sold and interest-bearing deposits	176,152	102,398
Total	**20,136,529**	**16,513,097**
Interest expense:		
Deposits	1,057,516	991,260
Time Deposits $250,000 and over	538,282	386,402
Other borrowings	96,286	54,183
Total	1,692,084	1,431,845
Net interest income	**18,444,445**	**15,081,252**
Provision for loan losses	915,000	615,000
Net interest income after provision for loan losses	17,529,445	14,466,252
Noninterest income:		
Mortgage origination income	1,455,932	1,133,350
Merchant fee income	467,618	409,915
Service charges on deposit accounts	214,141	200,269
Gain (loss) on sale of investment securities	(58,413)	337,113
Bank-owned life insurance income	244,847	252,508
Other fee income	789,718	672,152
Total noninterest income	**3,113,843**	**3,005,307**
Noninterest expenses:		
Salaries and employee benefits	9,964,764	8,187,602
Net occupancy	1,254,285	1,076,315
Furniture and equipment	581,787	516,329
FDIC banking assessments	417,996	294,714
Advertising	640,859	523,306
Data processing fees	533,796	465,475
Other operating expenses	3,339,551	2,809,338
Total noninterest expenses	**16,733,038**	**13,873,079**
Income before income taxes	3,910,250	3,598,480
Income taxes	495,989	994,551
Net income	**$ 3,414,261**	**$ 2,603,929**
Income per common share		
Basic income per common share	$ 0.58	$ 0.62
Average common shares outstanding - basic	5,858,988	4,213,080
Diluted income per common share	$ 0.57	$ 0.60
Average common shares outstanding - diluted	6,040,546	4,360,122

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

	2017	2016
Net income	$ 3,414,261	$ 2,603,929
Other comprehensive income		
Unrealized gain (loss) on securities available-for-sale	1,333,671	(1,023,558)
Reclassification adjustment for (gains) losses realized in net income	58,413	(337,113)
Net unrealized gains (losses) on securities	1,392,084	(1,360,671)
Income tax benefit (expense)	(516,982)	532,377
Net-of-tax amount	875,102	(828,294)
Comprehensive income	$ **4,289,363**	**$ 1,775,635**

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2017 and 2016

	Common Stock Shares	Common Stock Amount	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Total
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 $532,327	–	–	–	–	(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**
Net income	–	–	–	3,414,261	–	3,414,261
Other comprehensive gain net of tax benefit of $560,065	–	–	–	–	875,102	875,102
Stock and warrant compensation expense	–	–	68,912	–	–	68,912
Stock Dividend, 10%	584,016	584,016	5,456,048	(6,040,064)	–	–
Proceeds from capital raise, net	1,632,654	1,632,654	17,145,499	–	–	18,778,153
Proceeds from exercise of stock options	375,805	375,805	(305,588)	–	–	70,217
Reclassification of accumulated other comprehensive loss due to tax rate change	–	–	–	21,874	(21,874)	–
Balance, December 31, 2017	**6,423,797**	**$ 6,423,797**	**$ 54,366,837**	**$ –**	**$ (144,190)**	**$ 60,646,444**

South Atlantic Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net income	**$ 3,414,261**	**$ 2,603,929**
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	915,000	615,000
Depreciation expense	765,902	750,168
Discount accretion and premium amortization	578,803	549,505
Stock and warrant compensation expense	68,912	3,479
(Gain) loss on sale of securities	58,413	(337,113)
Deferred taxes	(147,379)	79,008
Amortization of deferred loan costs and fees, net	138,219	19,872
Increase in cash surrender value of bank owned life insurance	(244,847)	(252,508)
Decrease (increase) in accrued interest receivable	(219,681)	8,644
Increase in accrued interest payable	20,146	10,905
Increase in other assets	(226,655)	(67,897)
Increase in other liabilities	363,166	455,657
Net cash provided by operating activities	**5,484,260**	**4,438,649**
Investing activities:		
Purchase of securities available-for-sale	(7,115,889)	(27,272,011)
Proceeds from sales of securities available-for-sale	11,411,532	31,112,085
Proceeds from maturities, calls, and paydowns of securities available-for-sale	3,240,603	3,770,908
(Purchase) sale of nonmarketable equity securities	(40,000)	(33,400)
Net increase in loans	(65,199,542)	(58,364,779)
(Increase) decrease in loans held for sale	(336,618)	3,420,279
Purchases of premises, furniture and equipment	(1,059,572)	(364,788)
Net cash used by investing activities	**(59,099,486)**	**(47,731,706)**
Financing activities:		
Increase (decrease) in noninterest-bearing deposits	(11,314,656)	9,758,788
Increase in interest-bearing deposits	68,277,959	35,141,964
Proceeds from Federal Home Loan Bank Advances	40,000,000	79,500,000
Repayments of Federal Home Loan Bank Advances	(40,000,000)	(79,500,000)
Decrease in Federal funds purchased	(9,042,700)	(2,846,800)
Proceeds from exercise of stock options	70,217	15,758
Proceeds from stock offering, net	18,778,153	–
Net cash provided by financing activities	66,768,973	42,069,710
Net increase (decrease) in cash and cash equivalents	13,153,747	(1,223,347)
Cash and cash equivalents, beginning of year	7,232,751	8,456,098
Cash and cash equivalents, end of year	**$ 20,386,498**	**$ 7,232,751**
Cash paid during the year for:		
Interest	$ 1,671,938	$ 1,420,940
Income taxes	$ 909,696	$ 913,780
Noncash investing and financing activities:		
Unrealized gain (loss) on securities available-for-sale	$ 1,392,084	$ (1,360,671)

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.

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of Credit Risk, continued:

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, 2017 and 2016, the investment in Federal Home Loan Bank stock was $1,037,000 and $997,000, 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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

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:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". Under ASC 740, deferred tax assets or liabilities are computed based upon the difference between financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. The Company has provided a valuation allowance on its net deferred tax assets where it is more likely than not such assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. See Note 11, "Income Taxes" for additional information. The Company records any penalties and interest attributed to uncertain tax positions as a component of income tax expense.

The Company has adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which is considered a change in accounting principle. Because the required adjustment of deferred taxes is required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (commonly referred to as "stranded" tax effects) would not reflect the appropriate tax rate. Adoption of this ASU eliminates the "stranded" tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017. The Company has reclassified "stranded" tax effects totaling $21,874 from accumulated other comprehensive income (loss) to retained earnings and these reclassified amounts are reflected in the accompanying consolidated balance sheets and consolidated statements of shareholders' equity.

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.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

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. In 2017, there were 81,785 additional options granted. There were no additional options or warrants granted in 2016.

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.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

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, 2017, including interim periods within those fiscal years. 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 Accounting Standards Codification to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this guidance on the 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, 2018, including interim periods within those fiscal years. Early adoption is permitted.

We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-

Note 1. Summary of Significant Accounting Policies and Activities, Continued

of use assets and lease liabilities, which is based on the present value of lease payments. We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU

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. The Company does not expect these amendments to have a material effect on its 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 guidance requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

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. 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. 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.

In May 2017, the FASB amended the requirements in the Compensation – Stock Compensation Topic of the Accounting Standards Codification related to changes to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments will be effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2018, the FASB Issued (2018-02), Income Statement (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires Companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act. The Company has opted to early adopt this pronouncement by retrospective application to each period (or periods) in which the effect of the change in the tax rate under the Tax Cuts and Jobs Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings is $21,874.

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.

Note 1. Summary of Significant Accounting Policies and Activities, Continued

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 2016 consolidated financial statements were reclassified to conform with the 2017 presentation. Any such reclassifications had no impact of net income, earnings per common share, or shareholders' equity.

Note 2. Proposed Merger

On December 12, 2017, the Company entered into a merger agreement with Atlantic Bancshares, Inc. Under the merger, Atlantic Bancshares, Inc. will merge with and into South Atlantic Bancshares, Inc. and Atlantic Community Bank will merge with and into South Atlantic Bank.

In the merger, common shareholders and Series AAA preferred shareholders of Atlantic Bancshares, Inc. will receive 0.2452 shares of the Company's common stock for each share exchanged.

The merger has been unanimously approved by the boards of directors of each of the Company and Atlantic Bancshares, Inc. The closing of the merger is subject to the requisite regulatory approvals and other customary closing conditions. The merger is expected to close in the first quarter of 2018 or early second quarter of 2018.

Note 3. Cash and Due From Banks

The Company is required by regulation to maintain an average cash reserve balance based on a percentage of deposits. There was no required amount as of December 31, 2017. The amount of the required cash reserve balance at December 31, 2016 was approximately $703,000.

Note 4. Investment Securities

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

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 11,058,127	$ 7,874	$ 283,103	$ 10,782,898
SBA loan pools	869,963	–	6,531	863,432
Obligations of state and local governments	24,117,952	456,076	365,435	24,208,593
Total investment securities	$ 36,046,042	$ 463,950	$ 655,069	$ 35,854,923

	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

The following is a summary of maturities of securities available-for-sale as of December 31, 2017. 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	–	–
Due after five years but within ten years	18,052,965	17,828,163
Due after ten years	6,934,950	7,243,862
Mortgage-backed securities	11,058,127	10,782,898
Total	$ 36,046,042	$ 35,854,923

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2017 and 2016.

Available-for-Sale	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 3,554,984	$ 90,413	$ 5,193,838	$ 192,690	$ 8,748,822	$ 283,103
SBA loan pools	–	–	863,432	6,531	863,432	6,531
Obligations of state and local governments	1,126,360	4,001	14,101,383	361,434	15,227,743	365,435
Total	$ 4,681,344	$ 94,414	$20,158,653	$ 560,655	$ 24,839,997	$ 655,069

Note 4. Investment Securities, Continued

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**

There were eighteen securities with an unrealized loss for greater than twelve months at December 31, 2017 and two at December 31, 2016.

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 2017 and 2016 totaled $11,411,532 and $31,112,085, respectively. Sales of securities during 2017 resulted in gross realized gains of $20,485 and gross realized losses of $78,898, respectively. Sales of securities during 2016 resulted in gross realized gains of $661,528 and gross realized losses of $324,415, respectively.

At December 31, 2017, securities with book values of $498,359 and market values of $542,870 were pledged to secure public funds. At December 31, 2016, a security with a book value of $643,388 and market value of $630,633 was pledged to secure public funds.

Note 5. Loans Receivable

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

	2017	**2016**
Commercial	$ 32,355,458	$ 26,684,237
Commercial real estate	263,780,763	219,220,972
Consumer	7,394,163	3,039,514
Consumer real estate	131,525,823	118,537,328
Total gross loans	**435,056,207**	**367,482,051**
Less: Unearned origination fees, net	138,219	19,872
Allowance for loan losses	3,748,508	3,524,371
	$ 431,169,480	**$ 363,937,808**

Note 5. Loans Receivable, Continued

The following is a summary of information pertaining to our allowance for loan losses (by purpose code) as of and for the years ended December 31, 2017:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for loan losses:					
Beginning balance	$ 186,637	$ 2,461,964	$ 19,331	$ 856,439	$ 3,524,371
Charge-offs	(11,003)	(674,222)	(15,073)	(13,370)	(713,668)
Recoveries	21,108	972	–	725	22,805
Provisions	77,205	492,575	31,233	313,987	915,000
Ending Balance	**$ 273,947**	**$ 2,281,289**	**$ 35,491**	**$ 1,157,781**	**$ 3,748,508**
Ending Balances:					
Individually evaluated for impairment	$ –	$ –	$ –	$ 47,263	$ 47,263
Collectively evaluated for impairment	$ 273,947	$ 2,281,289	$ 35,491	$ 1,110,518	$ 3,701,245
Loans receivable:					
Ending balance – total	**$ 32,355,458**	**$263,780,763**	**$7,394,163**	**$131,525,823**	**$435,056,207**
Ending balances:					
Individually evaluated for impairment	$ 33,008	$ 250,699	$ 45,533	$ 93,622	$ 422,862
Collectively evaluated for impairment	$ 32,322,450	$263,530,064	$7,348,630	$131,432,201	$434,633,345

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

Note 5. Loans Receivable, Continued

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, 2017:

	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Grade:					
Pass	$ 32,304,672	$ 258,457,847	$ 7,348,630	$ 131,231,513	$ 429,342,662
Special mention	17,778	4,744,255	–	200,688	4,962,721
Substandard	33,008	578,661	45,533	93,622	750,824
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Total	**$ 32,355,458**	**$ 263,780,763**	**$ 7,394,163**	**$ 131,525,823**	**$ 435,056,207**

Note 5. Loans Receivable, Continued

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 a past due aging analysis of our loan portfolio at December 31, 2017:

	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	$ –	$ –	$ 33,008	$ 33,008	$ 32,322,450	$ 32,355,458	$ –
Commercial Real Estate	–	–	–	–	263,780,763	263,780,763	–
Consumer	–	–	–	–	7,394,163	7,394,163	–
Consumer Real Estate	–	–	–	–	131,525,823	131,525,823	–
Total	**$ –**	**$ –**	**$ 33,008**	**$ 33,008**	**$ 435,023,199**	**$ 435,056,207**	**$ –**

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**	**$ –**

Note 5. Loans Receivable, Continued

The following is an analysis of our impaired loan (including nonaccrual loans) portfolio detailing the related allowance recorded at December 31, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Commercial	$ 33,008	$ 44,011	$ –	$ 98,145	$ 7,507
Commercial Real Estate	250,699	250,699	–	234,295	5,202
Consumer	45,533	45,533	–	48,581	88
Consumer Real Estate	46,359	65,941	–	52,665	370
With an allowance recorded:					
Commercial	–	–	–	–	–
Commercial Real Estate	–	–	–	–	–
Consumer	–	–	–	–	–
Consumer Real Estate	47,263	132,029	47,263	48,989	1,605
Total:					
Commercial	33,008	44,011	–	98,145	7,507
Commercial Real Estate	250,699	250,699	–	234,295	5,202
Consumer	45,533	45,533	–	48,581	88
Consumer Real Estate	93,622	197,970	47,263	101,654	1,975
	$ 422,862	$ 538,213	$ 47,263	$ 482,674	$ 14,772

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
	$ 3,570,417	$ 3,674,765	$ 578,000	$ 2,687,827	$ 74,403

Note 5. Loans Receivable, Continued

The following is an analysis of our nonaccrual loan portfolio recorded at December 31, 2017 and 2016:

	2017	2016
Consumer real estate	33,008	401,550
Total	**$ 33,008**	**$ 401,550**

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 years ended December 31, 2017 and December 31, 2016, respectively, 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).

Note 6. Premises, Furniture and Equipment

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

	2017	2016
Land	$ 5,421,993	$ 5,421,993
Buildings and leasehold improvements	11,142,922	10,920,337
Furniture and equipment	4,335,206	3,408,844
Software	645,228	625,885
Automobile	32,895	40,909
Construction in progress	69,981	196,086
Total	**21,648,225**	**20,614,054**
Less accumulated depreciation	5,273,667	4,533,166
Premises, furniture and equipment, net	**$ 16,374,558**	**$ 16,080,888**

Depreciation expense for the years ended December 31, 2017 and 2016 was $765,902 and $750,168, respectively.

Note 7. Deposits

At December 31, 2017, the scheduled maturities of time deposits are as follows:

2018	$ 50,225,645
2019	2,279,869
2020	17,000,465
2021	434,115
2022	536,492
Total	**$ 70,476,586**

Note 7. Deposits, Continued

The bank had brokered deposits of $17,029,000 and $12,000,000 as of December 31, 2017 and 2016, respectively. Interest expense on time deposits that meet or exceed the FDIC insurance limit of $250,000 was $538,282 and $386,402 for the years ended December 31, 2017 and 2016, respectively.

Note 8. 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**	**2017**	**2016**
FHLB advances maturing			
March 16, 2018	1.47%	$ 15,000,000	$ –
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, 2017, the pledged collateral totaled approximately $35.9 million. Certain advances are subject to prepayment penalties.

Note 9. 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 183,091 options as adjusted for the Company's 2012, 2015 and 2017 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 109,854 options, as adjusted for the Company's 2012, 2015 and 2017 stock dividends. These options vest ratably over five years. The options have an exercise price of $7.51 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 416,777 stock options, as adjusted for the Company's 2012, 2015 and 2017 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 $7.51 per share and terminate ten years after the date of grant. During 2013, the Company granted a total of 18,755 stock options, as adjusted for the Company's 2015 and 2017 stock dividends. These options have a vesting and expected term of five years. These options have an exercise price of $8.68 and terminate ten years after the date of the grant. These options vest ratably over 5 years.

Note 9. Stock Compensation Plan, Continued

During 2017, the Company granted a total of 81,785 stock options, as adjusted for the Company's 2017 stock dividends. These options ratably vest over the terms below. The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing, resulting in a total expense of $211,942. In 2017, the Black-Scholes model with assumptions is presented below:

Grant date	January 6	January 6	July 5	September 26
Total number of options granted	14,025	66,000	1,100	660
Expected volatility	10.11%	10.11%	10.11%	10.11%
Expected term	10 years	10 years	10 years	10 years
Expected dividend	0.00%	0.00%	0.00%	0.00%
Risk-free rate	2.45%	2.45%	2.45%	2.45%
Grant date fair value	2.604	2.604	1.945	2.191
Vesting	5 years	3 years	5 years	2 years
Exercise Price	$10.32	$10.32	$14.30	$14.30

During 2017, 413,389 options were exercised of which 404,131 options are held as collateral on loans made to executives and employees. Of these, 9,258 options were exercised fully. There were 12,804 exercisable options at December 31, 2017. These options have a weighted average exercise price of $10.12. Total compensation expense related to stock options was $68,912 and $3,479 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, there was $149,109 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, 2017 and 2016 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, 2017, the common stock value used for this calculation was the closing price of the stock on December 30, 2017. At December 31, 2017 and 2016, the aggregate intrinsic value of shares outstanding and exercisable was $242,784 and $3,003,809, respectively.

The following table summarizes information about stock options outstanding under the Company's Plan at December 31, 2017 and 2016:

	2017		2016	
Number of options		98,120		429,721
Weighted average remaining life		8 years		1 year
Weighted average exercise price	$	10.12	$	7.56
High exercise price	$	14.55	$	8.68
Low exercise price	$	8.68	$	7.51
Aggregate intrinsic value	$	242,784	$	3,003,809

Note 9. Stock Compensation Plan, Continued

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

	2017		2016	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested at the beginning of year	7,502	$ 1.02	11,253	$ 1.02
Granted	81,785	2.60	–	–
Vested	3,971	0.93	3,751	1.02
Forfeited	–	–	–	–
Nonvested at end of year	85,316	$ 2.41	7,502	$ 1.02

Note 10. 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 13,310 shares at a price of $7.51 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. During 2017, the warrants expiration date was extended another ten years. 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 2017 and 2016, no warrants were issued or cancelled. At December 31, 2017, there were 119,790 outstanding and exercisable. These warrants will expire in 2027 unless otherwise extended.

Note 11. Income Taxes

The Tax Cuts and Jobs Act (TCJA) was signed into law by the President on December 22, 2017. The TCJA includes the reduction in the corporate tax rate from a top rate of 35% to a flat rate of 21%, changes in business deductions, and many international provisions.

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

	2017	2016
Current income tax expense:		
Federal	$ 573,215	$ 856,501
State	70,153	59,042
Total	643,368	915,543
Deferred income tax expense (benefit) :		
Federal	(19,255)	121,980
State	(128,124)	(42,972)
Total	(147,379)	79,008
Income tax expense	**$ 495,989**	**$ 994,551**

Note 11. Income Taxes, Continued

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

	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 638,974	$ 855,774
Net operating loss carryforward	54,041	7,569
Organization and start-up costs	50,588	98,147
Federal and state credits	487,244	527,953
Unrealized loss on securities available-for-sale	46,929	585,785
Deferred compensation	156,308	123,852
Other	–	3,281
Total deferred tax assets	1,434,084	2,202,361
Valuation allowance	(54,784)	(8,318)
Net deferred tax assets	**1,379,300**	**2,194,043**
Deferred tax liabilities:		
Accumulated depreciation	1,048,767	1,516,171
Loan origination costs	163,371	200,602
Prepaid expenses	17,409	17,936
Other	60,022	–
Total deferred tax liabilities	1,289,569	1,734,709
Net deferred tax asset	**$ 89,731**	**$ 459,334**

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, 2017 and 2016. 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, 2017 and 2016 a small valuation allowance in the amount of $54,784 and $8,318, 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, 2017. The Company has a state net operating loss carryforward of $1,368,119 and $229,364 as of December 31, 2017 and 2016, 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, 2017 and 2016:

Note 11. Income Taxes, Continued

	2017	2016
Tax expense at statutory rate	$ 1,329,485	$ 1,223,483
State income tax, net of federal income tax benefit	(38,261)	10,606
Change in valuation allowance	46,466	835
Cash surrender value of life insurance	(83,248)	(85,853)
Other municipal income	(233,127)	(189,935)
ISO/NQSO	(352,490)	–
Impact of federal tax rate change	(296,671)	–
Other	123,835	35,415
Income tax expense	**$ 495,989**	**$ 994,551**

Tax returns for 2014 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 12. 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 occurring ratably over the next five year period. During the years ended December 31, 2017 and 2016, the Bank recognized $163,524 and $143,669, respectively, in expenses related to this plan.

On January 1, 2013, we converted our defined contribution 401(k) contribution plan into a 401(k) Employee Stock Ownership Plan (“KSOP”), which provides a mechanism for Company employees to invest. Each employee who has attained age twenty-one and has completed at least 1,000 hours of service in a Plan year is eligible to participate in the 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, 2017 and 2016. Total shares owned by the KSOP were 59,629 and 74,208 at December 31, 2017 and 2016, respectively. In 2017, 20,000 shares were issued to the employees. With a stock dividend declared at November 28, 2017, an additional 5,421 shares were granted to the KSOP.

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 $244,847 and $252,508 for the years ended December 31, 2017 and 2016, respectively and are included in noninterest income. Cash values of the policies were $9,225,239 and $8,980,392 at December 31, 2017 and 2016, respectively. The corresponding liability associated with the Plan was $605,403 and $285,072 at December 31, 2017 and 2016, respectively and is included in other liabilities. Expenses related to the Plan were $320,331 and $36,042 for the years ended December 31, 2017 and 2016, respectively and are included in salaries and employee benefits.

Note 12. Employee Benefits, Continued

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 $138,921 and $79,200 for the years ended December 31, 2017 and 2016, respectively. Expenses related to the Director Plan were $59,721 and $79,200 for the years ended December 31, 2017 and 2016, respectively and are included in other operating expenses.

Note 13. Leases

The Bank has entered into agreements to lease various office facilities under non-cancellable operating lease agreements. Lease expense totaled $399,672 and $255,024 for the years ended December 31, 2017 and December 31, 2016, 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:

2018	$ 794,599
2019	671,567
2020	674,111
2021	688,706
2022 and thereafter	8,904,842
Total	**$ 11,733,825**

The Company is leasing a portion of its Murrells Inlet location to an unrelated tenant. Lease income generated from this tenant totaled $37,629 and $27,234 during the years ended December 31, 2017 and 2016, respectively.

Note 14. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families, and their business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility. As of December 31, 2017 and 2016, the Company had related party loans totaling $11,262,521 and $7,849,278, respectively.

In 2017, three executives of the Bank exercised 402,799 stock options with the holding company. A note receivable, in the amount of $3,392,274, was issued for the exercise of the options. The total for the note receivable was determined to be the contractual exercise price of the stock options, adjusted for federal and state income taxes. The note receivable bears an interest rate of 1.15% per annum and is due and payable on demand by the Company, no later than June 8, 2020.

Deposits by directors, including their affiliates and executive officers, were approximately $16,736,841 and $16,248,332 at December 31, 2017 and 2016, respectively.

Note 15. Commitments and Contingencies

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

Note 16. Income per Share

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

	2017	2016
Income per common share - basic computation:		
Net income	$ 3,414,261	$ 2,603,929
Average common shares outstanding - basic	5,858,988	4,213,080
Basic income per common share	**$ 0.58**	**$ 0.62**
Income per common share - diluted computation:		
Net income	$ 3,414,261	$ 2,603,929
Average commons shares outstanding - basic	5,858,988	4,213,080
Incremental shares from assumed conversions:		
Stock options and warrants	181,558	147,042
Average common shares outstanding - diluted	6,040,546	4,360,122
Diluted income per common share	**$ 0.57**	**$ 0.60**

Note 17. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

Note 17. Regulatory Matters, Continued

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, 2017 was 1.25%.

As of its 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, 2017 and 2016.

	Actual		For capital adequacy purposes Minimum		To be well-capitalized under prompt corrective action provisions Minimum	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Total capital (to risk-weighted assets)	$ 47,752,000	11.49%	$ 33,241,000	8.00%	$ 41,551,000	10.00%
Tier 1 capital (to risk-weighted assets)	44,003,000	10.59%	24,931,000	6.00%	33,241,000	8.00%
Tier 1 capital (to average assets)	44,003,000	8.57%	20,548,000	4.00%	20,776,000	5.00%
Common equity tier 1 capital (to risk-weighted assets)	44,003,000	10.59%	18,698,000	4.50%	27,008,000	6.50%
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%

Note 18. Unused Lines of Credit

As of December 31, 2017, the Company had available lines of credit to purchase federal funds from unrelated banks totaling $45,500,000. These lines of credit are available on a one to fourteen day basis for general corporate purposes. As of December 31, 2017, there was no outstanding balance on the lines. As of December 31, 2016, the balance outstanding on the lines was $9,042,700.

The Company also has an additional line of credit with the Federal Home Loan Bank with available funds totaling $35,880,204. As of December 31, 2017 and December 31, 2016, the balance outstanding on this line was $15,000,000.

Note 19. Shareholders' Equity

Stock Offering - On December 9, 2016, the company initiated a stock offering in the form of a Private Placement Memorandum. The Company was offering up to 1,632,654 shares of its common stock at a purchase price of $12.25 per share for an aggregate offering amount of up to $20 million. The offering was set to expire on March 31, 2017, but could be terminated or extended at the discretion of the Company. As of March 31, 2017, the Company had received gross proceeds of $20,000,012 and incurred offering costs of $1,221,859. This resulted in the issuance of 1,632,654 shares.

Stock Dividends - In November 2017, the Board of Directors declared a ten percent stock dividend payable on November 28, 2017, to shareholders of record at November 13, 2017. As a result of the stock dividend, 584,016 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, 2017, the Bank had $9,494,813 in retained earnings available for dividends.

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

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

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

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, 2017 and 2016 whose contract amounts represent credit risk:

	2017	2016
Commitments to extend credit	$ 66,742,000	$ 59,892,000
Letters of credit	1,005,000	1,981,000
Total	**$ 67,747,000**	**$ 61,873,000**

Note 21. Fair Value of Financial Instruments

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

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

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

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

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

Note 21. Fair Value of Financial Instruments, Continued

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

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

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

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

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Obligations of state and local governments	$ 24,208,593	$ –	$ 24,208,593	$ –
Mortgage-backed securities	10,782,898	–	10,782,898	–
SBA loan pools	863,432	–	863,432	–
Loans held-for-sale	1,865,265	–	1,865,265	–
Total	**$ 37,720,188**	**$ –**	**$ 37,720,188**	**$ –**

	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**	**$ –**

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

Note 21. Fair Value of Financial Instruments, Continued

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, 2017 and 2016, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

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

The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy (as described above) as of December 31, 2017 and 2016, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2017 and 2016.

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Impaired loans:				
Commercial	$ 33,008	$ –	$ –	$ 33,008
Commercial real estate	250,699	–	–	250,699
Consumer	45,533	–	–	45,533
Consumer real estate	46,359	–	–	46,359
Total impaired loans	**$ 375,599**	**$ –**	**$ –**	**$ 375,599**

	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**

Note 21. Fair Value of Financial Instruments, Continued

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

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

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

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

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

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

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

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

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

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

Note 21. Fair Value of Financial Instruments, Continued

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

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

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2017 and 2016 are as follows:

	December 31,			
	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash and due from banks	$ 11,848,718	$ 11,848,718	$ 7,175,777	$ 7,175,777
Federal funds sold and interest bearing deposits	8,537,780	8,537,780	56,974	56,974
Securities available-for-sale	35,854,923	35,854,923	42,636,300	42,636,300
Nonmarketable equity securities	1,037,000	1,037,000	997,000	997,000
Loans held for sale	1,865,265	1,865,265	1,528,648	1,528,648
Loans receivable	434,917,988	438,324,000	367,462,179	373,270,000
Bank owned life insurance	9,225,239	9,225,239	8,980,392	8,980,392
Accrued interest receivable	1,517,998	1,517,998	1,298,317	1,298,317
Financial Liabilities:				
Demand deposit, interest bearing transaction, and savings accounts	368,749,392	368,749,392	324,448,279	324,448,279
Certificates of deposit and other time deposits	70,476,586	68,746,586	57,814,395	58,674,395
Advances from Federal Home Loan Bank	15,000,000	15,000,000	15,000,000	15,000,000
Accrued interest payable	53,166	53,166	33,020	33,020

	Notional Amount	Fair Value	Notional Amount	Fair Value
Off-Balance Sheet Financial Instruments:				
Commitments to extend credit	$ 66,742,000	$ –	$ 59,892,000	$ –
Letters of credit	1,005,000	–	1,981,000	–

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

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

Condensed Balance Sheets

	2017	2016
Assets		
Cash	$ 15,112,110	$ 1,291,168
Investment in bank subsidiary	44,310,623	35,317,587
Loans	3,402,268	–
Other assets	906,791	831,044
Total assets	**$ 63,731,792**	**$ 37,439,799**
Liabilities and shareholders' equity		
Other liabilities	$ 3,085,348	–
Shareholders' equity	60,646,444	37,439,799
Total liabilities and shareholders' equity	**$ 63,731,792**	**$ 37,439,499**

Condensed Statements of Income

	2017	2016
Income	$ 23,529	$ –
Expenses:		
Salaries and benefits	71,031	3,479
Other	50,626	25,313
Total	121,657	28,792
Loss before income taxes and equity in undistributed income of banking subsidiary	(98,128)	(28,792)
Income tax benefit	394,454	8,607
Equity in undistributed income of banking subsidiary	3,117,935	2,624,114
Net income	**$ 3,414,261**	**$ 2,603,929**

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

Condensed Statements of Cash Flows

	2017	2016
Operating activities		
Net income	$ 3,414,261	$ 2,603,929
Adjustments to reconcile net income to net cash used in operating activities		
Equity in undistributed income of banking subsidiary	(3,117,935)	(2,624,114)
Stock and warrant compensation expense	68,912	3,479
Increase in investment in bank	(5,000,000)	(2,000,000)
Increase in accrued expenses and other liabilities	50,708	–
Increase in other assets	(75,747)	(22,024)
Net cash used in operating activities	**(4,659,801)**	**(2,038,730)**
Investing activities:		
Net increase in loans	(367,627)	–
Net cash used in investing activities	(367,627)	–
Financing activities:		
Proceeds from exercise of stock options	70,217	15,758
Proceeds from stock offering, net	18,778,153	–
Net cash provided by financing activities	**18,848,370**	**15,758**
Net increase (decrease) in cash and cash equivalents	13,820,942	(2,022,972)
Cash, beginning of year	1,291,168	3,314,140
Cash, end of year	**$ 15,112,110**	**$ 1,291,168**
Noncash operating and investing activities:		
Increase in related party loans	$ (3,085,349)	$ –

Note 23. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 7, 2018, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

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