



2018 Annual Report

South Atlantic Bancshares, Inc.

Building a Coastal Franchise

Selected Financial Highlights

<i>At or for the year ended December 31,</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
<i>Year-End Balances (In Thousands)</i>					
Total assets	\$ 630,216	\$ 518,404	\$ 444,533	\$ 400,218	\$ 363,348
Investment securities	49,993	36,892	43,633	52,784	52,607
Mortgage loans held-for-sale	924	1,865	1,529	4,949	360
Loans, net of unearned income (total loans)	531,035	434,918	367,462	309,039	262,286
Deposits	530,339	439,226	382,263	337,362	326,594
Shareholders' equity	79,336	60,142	36,819	35,645	32,242
<i>Average Balances (In Thousands)</i>					
Total assets	\$ 602,870	\$ 500,131	\$ 430,655	\$ 374,291	\$ 341,288
Earning assets	557,022	469,144	399,829	348,172	318,590
Investment securities	41,917	44,378	41,914	51,238	67,306
Loans, net of unearned income	493,348	409,882	340,892	279,810	239,797
Deposits	516,994	434,262	382,537	335,849	308,929
Shareholders' equity	72,395	54,220	37,554	33,961	26,925
<i>Earnings Breakdown (In Thousands)</i>					
Total interest income	\$ 26,660	\$ 20,137	\$ 16,513	\$ 14,137	\$ 13,012
Total interest expense	2,895	1,692	1,432	1,161	1,188
Net interest income	23,765	18,444	15,081	12,976	11,825
Total noninterest income	3,525	3,114	3,005	2,633	1,705
Total noninterest expense	22,211	17,048	13,873	12,272	10,618
Provision for loan losses	710	915	615	230	475
Income before taxes	4,369	3,595	3,598	3,106	2,437
Taxes	912	379	995	865	433
Net income	3,457	3,216	2,604	2,241	2,004
Diluted earnings per share	0.47	0.53	0.60	0.63	0.59
Common shares outstanding – end of period	7,504,040	6,423,797	3,831,322	3,829,672	3,372,042
Average common shares – basic	7,176,015	5,809,334	4,213,080	3,457,666	3,342,055
Average common shares – diluted	7,307,507	6,019,480	4,360,122	3,584,887	3,408,122
<i>Selected % Increases</i>					
Total assets	21.57	16.62	11.07	10.15	14.24
Total interest earning assets	20.89	17.73	11.97	10.27	14.62
Total loans	21.79	18.37	17.52	19.55	20.38
Total deposits	20.74	14.90	13.31	3.30	14.39
Interest income	32.40	21.94	16.81	8.64	15.24
Interest expense	71.10	18.18	23.30	(2.21)	(9.40)
Noninterest income	13.19	3.61	14.15	54.37	(14.54)
Noninterest expense	30.28	22.89	13.04	15.58	15.99
Net income	7.51	23.50	16.20	11.81	21.86
<i>Selected Ratios</i>					
Return on average assets	0.57	0.64	0.60	0.60	0.59
Return on average equity	4.78	5.93	6.93	6.60	7.44
Interest income to total average assets	4.42	4.03	3.38	4.06	3.81
Interest expense to total average assets	0.48	0.34	0.33	0.33	0.35
Net interest income to total average assets	3.94	3.93	3.77	3.73	3.46
Efficiency	81.39	79.08	76.70	78.63	78.48
Loan loss reserve to total loans	0.83	0.86	0.96	0.90	1.00
Nonperforming assets to total average assets	0.09	0.01	0.09	0.11	0.13
Net charge-offs to total average assets	0.01	0.14	(0.02)	0.01	0.07
Net interest margin	4.29	4.02	3.85	3.80	3.79

Non-GAAP Financial Measures

	For the Twelve Months Ended December 31, 2018	For the Twelve Months Ended December 31, 2017
Net income	\$ 3,457,454	\$ 3,215,811
Merger and conversion expenses	1,385,270	—
Net operating earnings (non-GAAP)	4,842,724	—
Earnings Breakdown		
Net income per share – diluted	\$ 0.47	\$ 0.53
Net operating earnings – diluted (non-GAAP)	0.66	—
Selected Ratios		
Return on average assets	0.57	0.64
Net operating return on average assets (non-GAAP)	0.80	—
Return on average stockholders' equity	4.78	5.93
Net operating return on average equity (non-GAAP)	6.69	—
Efficiency ratio	81.39	79.08
Efficiency ratio (non-GAAP)	76.31	—

About South Atlantic Bank

South Atlantic Bank was organized in 2007 to meet the unique financial needs of businesses and consumers in the coastal communities we serve. The bank's founders recognized that the growing number of regional banks in the market created an opportunity for a locally owned and operated community bank to succeed. South Atlantic Bank opened its first office in Myrtle Beach in November 2007, and since then added locations in Murrells Inlet, Pawleys Island, Georgetown, North Myrtle Beach, Mount Pleasant, and Charleston. In 2018, the bank completed a merger with Atlantic Bancshares, Inc. which expanded South Atlantic Bank's geographic footprint to Bluffton and Hilton Head Island. The product menu includes personal and business checking, savings, and money market accounts, along with residential mortgages, commercial loans, and lines of credit. The bank also offers a wide variety of technologically advanced products including a mobile banking app, South Atlantic Bank goMobile. In 2017, South Atlantic Financial Group was formed to offer customers access to non-traditional banking services. The bank's officers and employees are focused on establishing customer relationships through quality service and convenience with a high level of personal attention. South Atlantic Bank is a South Carolina chartered bank that is fully insured by the FDIC. Its community banking philosophy strongly emphasizes credit quality, sound banking practices, and exemplary customer service as a model for success.

Mission Statement

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

Stock Information

The common stock of South Atlantic Bancshares, Inc. is listed on the OTCQX® Best Market under the symbol SABK. To find current financial disclosures and real-time level 2 quotes for South Atlantic Bancshares, Inc., visit www.otcm Markets.com and enter the symbol SABK. As of December 31, 2018, there were 590 shareholders of record.

Annual Meeting

The Annual Meeting of Shareholders of South Atlantic Bancshares, Inc. will take place on Tuesday, April 23, 2019, at 5:30 p.m. at the bank's headquarters at 630 29th Avenue North, Myrtle Beach, South Carolina 29577.

Registrar/Transfer Agent

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Corporate Counsel

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Washington, DC 20037

Independent Accountants

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

Cover photo by Dave Klee.

To our Shareholders and Friends

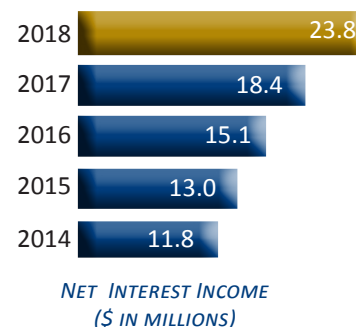
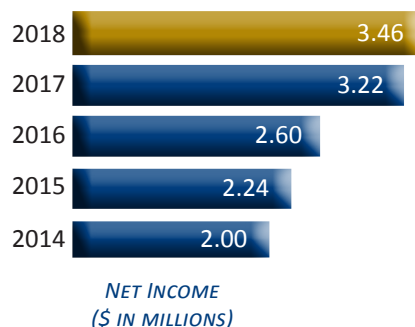


In 2018, we continued growing our coastal franchise with the completion of our first acquisition and achieved strong earnings through organic growth across the dynamic markets we serve.

The Year in Review

Long-term strategic goals were met as we expanded our geographic footprint along the South Carolina coast into the Bluffton and Hilton Head Island markets with the acquisition of Atlantic Bancshares, Inc. At closing, we acquired assets of approximately \$82 million, ending the year with \$630.2 million in assets. Our staff did an incredible job with the conversion process and opening the new offices in June. It was a smooth transition apparent in the retention of talented staff and customer relationships.

We are pleased with our performance in 2018. We produced net income of \$3.5 million while absorbing \$1.4 million in merger fees. In addition to the impact of merger-related expenses, our financial results are remarkable considering our fall was mired by Hurricane Florence. The storm and extensive flooding that followed crippled the Grand Strand area, with more than 2,000 homes flooded, and certainly affected business. As a company, we worked together to support our employees, customers, and the community.



Our continued strong performance results from our bankers' commitment to service and developing total customer relationships across product lines. We know the areas where we do business, and we know our customers well. We have excellent bank leadership in each market making informed local decisions, which is evident in our exceptional asset quality.

Balance Sheet Growth

We continued our earnings growth and string of profitable years. Net operating earnings on average assets (Non-GAAP) of 0.80 at year-end 2018 is the best performance in Company history. Asset quality continues with nonperforming assets to total average assets of 0.09 percent for the year.

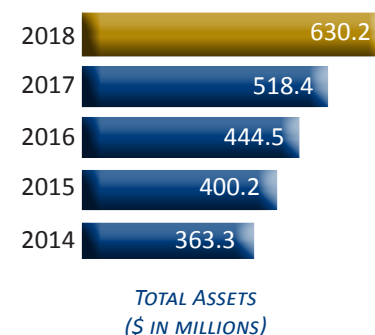
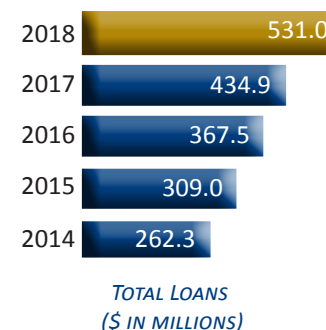
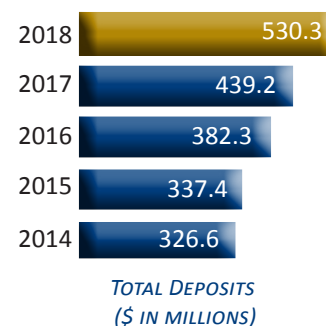
Net operating earnings (non-GAAP) for the year ended December 31, 2018 totaled \$4.8 million or \$0.66 per diluted common share. Net income for the year ended December 31, 2018 was \$3.5 million, which includes one-time charges of \$1.4 million in merger and conversion expenses from the Atlantic Bancshares, Inc. acquisition booked in the second quarter of 2018, or \$0.47 per common share.

Our year-end net interest margin increased 27 basis points to 4.29 percent, a 7 percent increase from 2017. Increase in the Fed Funds rate helped improve the margin along with a high percentage of noninterest bearing accounts and careful balance sheet management.

Organic loan growth totaled 7.4 percent for the year and credit quality remained strong in all of our markets as evidenced by net charge-offs to total average assets of 0.01 percent.

Our measured growth has created a balanced and consistently strong performance across the balance sheet. Organic deposits increased by 4.8 percent in a competitive rate environment.

Tax reform legislation enacted in December 2017 had a positive effect on business in 2018 with the reduction of our corporate tax rate from 35 percent to 21 percent.



Our continued strong performance results from our bankers' commitment to service and developing total customer relationships across product lines.

Expansion of our Geographic Footprint

By strategically planning our growth, we were ready when the right opportunity to expand our coastal franchise became available. We carefully chose our new partner, and the acquisition of Atlantic Community Bank with offices in Bluffton and on Hilton Head Island fit perfectly in our expansion plans.

Bluffton is experiencing unprecedented growth with a 68 percent increase in population since 2010, joining Mount Pleasant and Horry County as three of the fastest growing MSAs in the southeast.

Not only are the branch locations ideal, but with the acquisition, we found a partner with talented, motivated staff who share our values and commitment to customer service, making it a seamless fit. Our team in place has the experience and ability to grow market share as we establish our presence in this key market, which will be an area of primary focus in 2019.



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South Atlantic Bank recently purchased the HTC building in Carolina Forest for its Operations Center.

Operations Center

To support our growth, we are opening a new operations center at 3990 River Oaks Drive in the Carolina Forest area of Myrtle Beach. In April, our deposit, loan, and mortgage operations areas will relocate to the 18,000 square-foot building, which includes room for training along with meeting space we will make available to the community. Housing our day-to-day operations at an inland location could lessen the impact of a coastal storm on our business activity. This facility also provides potential space for a retail office should we seek to do so. We are excited about the move into this rapidly growing area of Horry County and the opportunity it presents for future growth.

In Our Neighborhoods

As a local bank, we have long-standing ties to our communities. We're proud to support organizations that make our coastal cities and towns better.

Bankers serve as a key source of leadership in our communities and our bankers volunteer on the boards of civic, charitable and educational organizations. We're glad to sponsor a variety of events throughout our markets and commit resources to help local nonprofits achieve their goals. With the opening of our operations center, we will offer meeting space for community group use.

In addition to sponsorships throughout our markets, the South Atlantic team raised money for the Grand Strand Miracle League and the American Red Cross through branch fundraisers. We also donated funds to support flood victims and help feed children while schools were closed following the hurricane. We promote financial literacy by providing banking curriculum in our local schools and bankers to speak at area high schools.

We have implemented an employee volunteer program and provide our team members with paid time off to volunteer for causes important to them. We strive to be a good corporate citizen and want to extend our commitment to service into our communities.

As a host of networking events for area small business owners, we help to foster strong business relationships in our communities and include financial topics as part of the program.

Technology and Infrastructure

To stay responsive to customer demand for electronic banking, we have enhanced online banking features to make bill paying easier and added a person-to-person electronic payment option.

Convenient access to account information is vital. We have also invested in our telephone banking with a new voice recognition feature and access to additional account information.

Safeguarding customer information is crucial, particularly with technology-based banking, and our customers' privacy is a top priority. Our enhanced processing platform provides increased fraud protection for debit card users. Our bank prides itself on its technology when delivering products and services to our customers, and we are constantly enhancing those services.



We have a strong and caring team of employees. When the hurricane hit, we had a detailed business continuity plan in place, which our team executed flawlessly under the circumstances. We were able to communicate to all employees and get our offices opened in a safe manner to provide banking services and support to our communities in record time.

We have refined our management structure, creating the role of chief lending officer to serve as the go-to for commercial lenders in all markets. Using a team approach and gaining from each banker's collective years of insight and use of successful methods will result in an even stronger team.

Our retail sales team has streamlined processes and implemented team building to focus on synergy across all markets. A solid sales culture and personalized service will maximize our customer relationships as we deliver the products and services to help each client achieve their goals.

Our mortgage business was impacted by the hurricane, but continues to grow and improve. We have added mortgage lenders and increased our mortgage operations staff to capitalize on the opportunities our rapidly growing markets provide.

Another growth initiative is our wealth management division, South Atlantic Financial Group. We offer our customers access to investment services and assistance in financial planning both personal and business.

We are fortunate to have Edgar L. Woods join our board. He served on the board of Atlantic Bancshares, Inc. and has extensive knowledge of the Bluffton and Hilton Head markets. He also brings valuable business experience as president of Palmetto Grain Brokerage and president of Performance AG.

We're Your Community Bank in the Lowcountry.



At South Atlantic Bank, you'll work with experienced bankers who share your love of the Lowcountry...in a setting where technology is used to enhance customer relationships, not replace them...and decisions are made locally. Call, click, or stop by today.

5A Park Lane | Hilton Head

843.785.3400

One Sheridan Park Circle | Bluffton

843.815.7111

SouthAtlantic.bank

South Atlantic
Bank®
People You Know & Trust.

An ad series introduced South Atlantic Bank in Bluffton and on Hilton Head Island, featuring members of the market leadership team.

Ansley Goodman | Retail Banking | Bluffton and Hilton Head Island | 843.707.0102

Bob McKinney | Regional Executive | Bluffton and Hilton Head Island | 843.815.8316 | NMLS #1098806

Susan Sherry | Commercial Lending | Hilton Head Island | 843.815.8313 | NMLS #607699



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We are in three of
the southeast's top
MSAs...Our coastal
communities are
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The Year Ahead

We are positioned in three of the top MSAs in the southeast and prime locations for growth opportunities. Our coastal communities are seeing unprecedented population growth that shows no sign of slowing down. Our geographic footprint is perfectly placed for continued growth and opportunity.

Deposit growth, which has become extremely competitive in all our markets and our industry, will continue to be a focus in 2019. Our business strategy and deep customer relationships will help to reach our deposit goals.

We will continue to monitor the interest rate environment and work to position the bank for future rate scenarios. With inflation near the Federal Reserve's two percent target rate, the Fed is currently exercising patience in regards to future interest rate hikes for the present time.

The Financial Accounting Standards Board's Current Expected Credit Loss standard (CECL) becomes effective in 2020 with a three-year phase in period.

It is a sweeping change to bank accounting and could effect bank capital requirements and product offerings. CECL requires "life of loan" estimates to be recorded for unimpaired loans at origination, and applies to all existing loans in the portfolio. To prepare, we are establishing new metrics for our loan loss reserve and including CECL standards in our budgeting and capital planning.

While we expect growth in all of our markets, we are especially keyed in on the Bluffton and Hilton Head markets, which we believe have tremendous upside. We will continue to be on the look-out for any opportunities to expand our franchise.

Thank you for your continued confidence in our company. We take pride in serving our customers, shareholders and communities. I have the privilege to work with a talented team, and we put forth our best effort daily to achieve results and earn your support.



K. Wayne Wicker
Chairman of the Board
Chief Executive Officer

Directors

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

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

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

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

Miles M. Herring
Franchisee and Owner
Krispy Kreme Doughnuts

Martha S. Lewis
Physical Therapist
NextStep Rehabilitation

R. Scott Plyler
President
South Atlantic Bank

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

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

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

Zeb M. Thomas, Jr.
Retired Hotelier

K. Wayne Wicker
Chairman of the Board
Chief Executive Officer
South Atlantic Bank

Edgar L. Woods
President/Owner
Palmetto Grain Brokerage, LLC
President
Performance AG, LLC

Executive Officers

K. Wayne Wicker
Chairman
Chief Executive Officer

R. Scott Plyler
President

Richard N. Burch
Executive Vice President
Chief Financial Officer

C. Alec Elmore
Executive Vice President
Chief Credit Officer

Robert L. McKinney
Executive Vice President
Bluffton/Hilton Head Island
Regional Executive

Travis A. Minter
Executive Vice President
Director of Mortgage Loans
and Retail Banking

Kenneth M. Pickens
Executive Vice President
Charleston Regional Executive

Mary Jo Rogers
Executive Vice President
Chief Lending Officer

Corporate Officers and Regional Executives

Accounting

Melissa K. Downs-High
Senior Vice President
Controller

Michelle M. Pennell
Senior Vice President
Director of Finance

Administration

Candace L. Cherry
Senior Vice President
Corporate Liaison

Compliance

Tanya W. Slavin
Vice President
Director of Compliance

Credit Risk

Derick R. Powers
Senior Vice President
Credit Risk Officer

Tammie Y. Goodballet
Vice President
Portfolio Manager

Jordan P. Ovcharov
Vice President
Portfolio Manager

Deposit Operations

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

Human Resources

Carrie S. Harris
Senior Vice President
Director of Human
Resources

Loan Operations

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Director of Loan Operations

Deborah B. Atkins
Vice President
Assistant Director of Loan
Operations

Karen M. Atwood
Vice President
Construction Loan Manager

Marketing

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Vice President
Director of Marketing

Merchant Services

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

LaRae M. Kornahrens
Vice President
Merchant and Treasury
Services

Mortgage Services

Susan O. Burton
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Mortgage Loan Operations
Manager

Peter M. Insabella
Senior Vice President
Mortgage Sales Manager

Robert N. Crowe
Vice President
Mortgage Loan Officer

Adam M. Paskanik
Vice President
Mortgage Loan Officer

Donna L. Spitzer
Vice President
Mortgage Processor/
Underwriter

Retail Sales

Michelle A. Coletta
Senior Vice President
Retail Sales Manager

Branch Network

Grand Strand

Daniel F. Siau
Senior Vice President
Grand Strand Regional
Executive

Myrtle Beach

Paul E. Peeples
Senior Vice President
Myrtle Beach Regional
Executive

John W. Rowe, III
Senior Vice President
Commercial Relationship
Manager

Alison N. Van Wagner
Assistant Vice President
Branch Manager

Murrells Inlet

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

Denise F. Brown
Vice President
Branch Manager

North Myrtle Beach

John L. Breeden, III
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North Strand Regional
Executive

Allison L. Cabaniss
Vice President
Branch Manager

Pawleys Island

Drew S. Johnson
Senior Vice President
Waccamaw Neck Regional
Executive

Donna M. Murphy
Vice President
Branch Manager

Georgetown

Mary I. Lee
Vice President
Branch Manager

Charleston

Kurt S. Seguer
Senior Vice President
City Executive

A. Stephenson
Humphreys, III
Senior Vice President
Commercial Relationship
Manager

Theodore R. Sullivan
Vice President
Business Development
Officer

Ashley R. Cooper
Assistant Vice President
Branch Manager

Mount Pleasant

Walter N. Lawson
Senior Vice President
Commercial Relationship
Manager

Brian J. Michel
Senior Vice President
Commercial Relationship
Manager

Hayden S. DeWitt
Assistant Vice President
Branch Manager

Bluffton

Bryan K. Newton
Senior Vice President
Commercial Relationship
Manager

Andrew R. Richard
Vice President
Commercial Relationship
Manager

Mollie J. Sandman
Assistant Vice President
Branch Manager

Hilton Head Island

E. Ansley Goodman
Vice President
Retail Banking Leader
Branch Manager

Susan M. Sherry
Vice President
Commercial Relationship
Manager

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2

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4

4–Pawleys Island

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5

5–Georgetown

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6

6–Mount Pleasant

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7

7–Charleston

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8

8–Bluffton

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9

9–Hilton Head Island

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