

# South Atlantic Bank

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## *PRESS RELEASE*

### **For Immediate Release**

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### **South Atlantic Bancshares, Inc. Reports Earnings of 78 cents per Diluted Common Share For Year Ended December 31, 2018**

MYRTLE BEACH, SC, January 23, 2019 /PRNewswire/ -- South Atlantic Bancshares, Inc. (the "Company") (OTCQX:SABK), announced today the results of its operations for the year ended December 31, 2018. Highlights include:

- Net operating return on average assets (a non-GAAP financial measure) of 0.80 percent for the year ended December 31, 2018, the best performance in Company history.
- Net interest margin, taxable equivalent, of 4.29 percent, a 27 basis point, or 7 percent, increase from a year ago.
- Asset quality continues to be a highlight with nonperforming assets to total assets of 0.09 percent as of December 31, 2018.
- Total loans grew 21.8 percent, to \$532.0 million at December 31, 2018 from \$436.8 million at December 31, 2017, primarily due to the acquisition of Atlantic Bancshares, Inc. ("Atlantic Bancshares") and its banking subsidiary, Atlantic Community Bank, in the second quarter of 2018. Organic loans from all markets grew 7.4 percent in 2018.
- Total deposits grew 20.7 percent, to \$530.3 million at December 31, 2018 from \$439.2 million at December 31, 2017, primarily due to the acquisition of Atlantic Bancshares. Our organic deposits grew 4.8 percent in 2018, with deposit growth in each market we operate.
- Total assets grew 21.8 percent to \$632.1 million at December 31, 2018 from \$519.1 million at December 31, 2017, primarily due to the acquisition of Atlantic Bancshares. Organic assets grew 5.98 percent in 2018.

K. Wayne Wicker, chairman and chief executive officer, stated: "We are pleased with our performance in 2018. Our organic growth continued as we absorbed \$1.4 million in merger expenses and endured the impact of Hurricane Florence during the fall. Solid loan and deposit growth along with an expansion of our mortgage loan department contributed to a productive year.

"Our team did a tremendous job folding in Atlantic Community Bank's branches, and we are very optimistic about the opportunities in the Bluffton and Hilton Head markets. Our coastal franchise is located in three of the top growing MSAs in the southeast, which positions us well for ongoing success," Wicker said.

### **2018 Financial Highlights**

Net operating earnings (non-GAAP) for the year ended December 31, 2018 totaled \$4.8 million or \$0.78 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 acquisition booked in the second quarter of 2018, or \$0.56 per common share.

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Net income for the three months ended December 31, 2018 totaled \$1.4 million compared to \$779 thousand for the same period in 2017. For the quarter, net income per common share was \$0.18, compared to \$0.13 for the same quarter in 2017.

### Non-GAAP Financial Measures

|                                                   | For the<br>Three Months<br>Ended<br>December 31,<br>2018 | For the<br>Three Months<br>Ended<br>December 31,<br>2017 | For the<br>Year Ended<br>December 31,<br>2018 | For the<br>Year Ended<br>December 31,<br>2017 |
|---------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Net Income                                        | \$ 1,361,796*                                            | \$ 779,113                                               | \$ 3,455,579*                                 | \$ 3,414,261                                  |
| Merger and Conversion Expenses                    | -                                                        | -                                                        | 1,385,288                                     | -                                             |
| Net operating earnings (non-GAAP)                 | -                                                        | -                                                        | 4,840,867                                     | -                                             |
| <b>Earnings Breakdown</b>                         |                                                          |                                                          |                                               |                                               |
| Net Income per share – diluted                    | 0.18                                                     | 0.13                                                     | 0.56                                          | 0.58                                          |
| Net operating earnings – diluted (non-GAAP)       | -                                                        | -                                                        | 0.78                                          | -                                             |
| <b>Selected Ratios</b>                            |                                                          |                                                          |                                               |                                               |
| Return on average assets                          | 0.86                                                     | 0.60                                                     | 0.57                                          | 0.68                                          |
| Net operating return on average assets (non-GAAP) | -                                                        | -                                                        | 0.80                                          | -                                             |
| Return on average stockholders' equity            | 6.79                                                     | 5.11                                                     | 4.74                                          | 6.31                                          |
| Net operating return on average equity (non-GAAP) | -                                                        | -                                                        | 6.64                                          | -                                             |
| Efficiency ratio                                  | 70.72                                                    | 80.04                                                    | 81.40                                         | 77.62                                         |
| Efficiency ratio (non-GAAP)                       | -                                                        | -                                                        | 76.32                                         | -                                             |

\* Net income includes merger and conversion expenses totaling \$1,385,288.

### Net Interest Income and Net Interest Margin

Net interest income to average assets was 4.27 percent and 3.93 percent for the twelve months ended December 31, 2018 and 2017, respectively. Net interest income totaled \$23.8 million in the year ended December 31, 2018 compared to \$18.4 million for the same period in 2017. Net interest margin, taxable equivalent, increased from 4.02 percent for the year ended December 31, 2017 to 4.29 percent for the same period in 2018. Increases in net interest income and net interest margin are attributed to loan growth and interest rate increases during the period.

Net interest income to average assets of 4.02 percent for the fourth quarter of 2018 increased from 3.76 percent in the fourth quarter of 2017. Net interest income for the fourth quarter totaled \$6.3 million and \$4.9 million in 2018 and 2017, respectively. Net interest margin, taxable equivalent, was 4.07 percent for the fourth quarter of 2017 and 4.37 percent for the fourth quarter of 2018. Improvements in net interest income the quarter are attributed to increases in the yield on earning assets.

### Noninterest Income and Expense

Noninterest income totaled \$3.5 million and \$3.1 million for the years ended December 31, 2018 and 2017, respectively. Noninterest income totaled \$838 thousand and \$741 thousand for the fourth quarter of 2018 and 2017, respectively. The increase in noninterest income was related primarily to an increase in mortgage operations income.

Noninterest expense was up for the year ended December 31, 2018 at \$22.2 million from \$16.7 million in 2017. For the fourth quarter, noninterest expense totaled \$5.1 million compared to \$4.5 million in 2018 and 2017, respectively. These increase is attributed primarily to the merger & conversion expenses and completion of the Charleston market headquarters.

Our effective income tax rate was 20.6 percent for the fourth quarter of 2018 as compared to 17.7 percent for the fourth quarter of 2017. Our effective tax rate for the year ended December 31, 2018 was 20.8 percent compared to 18.3 percent for the year ended December 31, 2017. The lower rate in 2017 primarily reflects the benefit from a reduction of the US federal corporate income tax rate by the Tax Cuts and Jobs Act and a deferred tax liability adjustment.

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## **Loan Loss Provision**

Provision for loan losses for the years ended December 31, 2018 and 2017, respectively, was \$710 thousand and \$915 thousand. The decrease in provision is primarily a reflection of the Company's excellent asset quality and treatment of the reserve related to the merger. Provision for loan losses totaled \$385 thousand and \$465 thousand for the fourth quarter of 2018 and 2017, respectively. The allowance for loan and lease losses at December 31, 2018 was \$4.4 million, or 0.83 percent of total loans, as compared to \$3.7 million, or 0.86 percent of total loans, at December 31, 2017.

## **Nonperforming Assets**

Nonperforming assets as a percentage of average assets was 0.09 percent and 0.05 percent for the years ended December 31, 2018 and 2017, respectively. For the fourth quarter, nonperforming assets as a percentage of average assets was 0.09 and 0.01 for 2018 and 2017, respectively. In addition to the allowance, there were \$1.4 million additional discounts on \$39.8 million of loans acquired in the acquisition of Atlantic Bancshares as of December 31, 2018.

## **About South Atlantic Bancshares, Inc.**

South Atlantic Bancshares, Inc., (OTCQX: SABK) is a registered bank holding company based in Myrtle Beach, South Carolina with \$632.1 million in assets. The Company's banking subsidiary, South Atlantic Bank, is a full service financial institution spanning the entire coastal area of South Carolina, and is locally owned, controlled, and operated. The bank operates nine offices in Myrtle Beach, North Myrtle Beach, Murrells Inlet, Pawleys Island, Georgetown, Mount Pleasant, Charleston, Hilton Head Island, and Bluffton, South Carolina. South Atlantic Bank specializes in providing personalized community banking services to individuals, small businesses and corporations. Services include a full range of consumer and commercial banking products, including mortgage, and treasury management, including South Atlantic Bank *goMobile*, its mobile banking app. The bank also offers online banking, checking, CD, and money market accounts, merchant services, mortgage loans, remote deposit capture, and more. Recruiting the best people, delivering exceptional client service, strategic branching and a disciplined approach to lending have contributed to South Atlantic Bank's success. For more information, visit [www.Southatlantic.bank](http://www.Southatlantic.bank)

## **Non-GAAP Financial Measures**

Statements included in this press release include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. Company management uses several non-GAAP financial measures, including (i) net operating earnings available to common shareholders, (ii) net operating return on average assets, (iii) net operating return on average equity, and (iv) non-GAAP efficiency ratio, in its analysis of the Company's performance. Net operating earnings available to common shareholders excludes from net income the merger and conversion expenses from the Atlantic Bancshares acquisition.

Management believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company and provide meaningful comparisons to its peers. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the results or financial condition as reported under GAAP.

## **Cautionary Statement Regarding Forward-Looking Statements**

This press release contains, among other things, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements preceded by, followed by,

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or that include the words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "projects," "outlook" or similar expressions, including statements related to the integration of Atlantic Bancshares. These statements are based upon the current beliefs and expectations of the Company's management team and are subject to significant risks and uncertainties that are subject to change based on various factors (many of which are beyond the Company's control). Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate. Therefore, the Company can give no assurance that the results contemplated in the forward-looking statements will be realized. The inclusion of this forward-looking information should not be construed as a representation by the Company or any person that the future events, plans, or expectations contemplated by the Company will be achieved. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made, except as required by law.

Information contained herein, other than information at December 31, 2017, and for the twelve months then ended, is unaudited. All financial data should be read in conjunction with the notes to the consolidated financial statements of the Company and South Atlantic Bank as of and for the year ended December 31, 2017, as contained in the Company's 2017 Annual Report located on the Company's website.

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**South Atlantic Bancshares, Inc.**  
**Selected Financial Highlights**

|                                                                              | For the<br>Twelve Months Ended<br>December 31, 2018 | For the<br>Twelve Months Ended<br>December 31, 2017 | For the<br>Twelve Months Ended<br>December 31, 2016 |
|------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| <b>Year-End Balances (In Thousands)</b>                                      |                                                     |                                                     |                                                     |
| Total assets                                                                 | \$ 632,132                                          | \$ 519,129                                          | \$ 444,533                                          |
| Investment securities                                                        | 49,993                                              | 36,892                                              | 43,633                                              |
| Loans, net of unearned income (total loans)                                  | 531,959                                             | 436,783                                             | 368,991                                             |
| Deposits                                                                     | 530,339                                             | 439,226                                             | 382,263                                             |
| Shareholders' equity                                                         | 80,739                                              | 60,646                                              | 37,440                                              |
| <b>Average Balances (In Thousands)</b>                                       |                                                     |                                                     |                                                     |
| Total assets                                                                 | \$ 601,963                                          | \$ 500,131                                          | \$ 430,655                                          |
| Earning assets                                                               | 557,022                                             | 469,144                                             | 399,829                                             |
| Investment securities                                                        | 41,917                                              | 44,378                                              | 41,914                                              |
| Loans, net of unearned income                                                | 493,348                                             | 409,882                                             | 340,892                                             |
| Deposits                                                                     | 516,994                                             | 434,262                                             | 382,537                                             |
| Shareholders' equity                                                         | 72,961                                              | 54,144                                              | 37,554                                              |
| <b>Earnings Breakdown (In Thousands, except Share and Per Share Amounts)</b> |                                                     |                                                     |                                                     |
| Total interest income                                                        | \$ 26,660                                           | \$ 20,137                                           | \$ 16,513                                           |
| Total interest expense                                                       | 2,895                                               | 1,692                                               | 1,432                                               |
| Net interest income                                                          | 23,765                                              | 18,444                                              | 15,081                                              |
| Total noninterest income                                                     | 3,525                                               | 3,114                                               | 3,005                                               |
| Total noninterest expense                                                    | 22,213                                              | 16,733                                              | 13,873                                              |
| Provision for loan losses                                                    | 710                                                 | 915                                                 | 615                                                 |
| Income before taxes                                                          | 4,367                                               | 3,910                                               | 3,598                                               |
| Taxes                                                                        | 911                                                 | 496                                                 | 995                                                 |
| Net income                                                                   | 3,456                                               | 3,414                                               | 2,604                                               |
| Diluted earnings per share                                                   | 0.56                                                | 0.57                                                | 0.60                                                |
| <b>Weighted average shares outstanding</b>                                   |                                                     |                                                     |                                                     |
| Basic                                                                        | 6,041,971                                           | 5,858,988                                           | 4,213,080                                           |
| Diluted                                                                      | 6,173,463                                           | 6,040,546                                           | 4,360,122                                           |
| <b>Selected % Increases</b>                                                  |                                                     | <b>Year Over Year</b>                               |                                                     |
| Total assets                                                                 | 21.77                                               | 16.78                                               | 11.07                                               |
| Total interest earning assets                                                | 20.89                                               | 17.73                                               | 11.97                                               |
| Total loans                                                                  | 21.79                                               | 18.37                                               | 17.52                                               |
| Total deposits                                                               | 20.74                                               | 14.90                                               | 13.31                                               |
| Interest income                                                              | 32.40                                               | 21.94                                               | 16.81                                               |
| Interest expense                                                             | 71.10                                               | 18.18                                               | 23.30                                               |
| Noninterest income                                                           | 13.19                                               | 3.61                                                | 14.15                                               |
| Noninterest expense                                                          | 32.75                                               | 20.62                                               | 13.04                                               |
| Net income                                                                   | 1.21                                                | 31.12                                               | 16.20                                               |
| <b>Selected Ratios</b>                                                       |                                                     | <b>Year Over Year</b>                               |                                                     |
| Return on assets                                                             | 0.57                                                | 0.68                                                | 0.60                                                |
| Return on equity                                                             | 4.74                                                | 6.31                                                | 6.93                                                |
| Interest income to total average assets                                      | 4.43                                                | 4.29                                                | 4.13                                                |
| Interest expense to total average assets                                     | 0.48                                                | 0.36                                                | 0.36                                                |
| Net interest income to total average assets                                  | 4.27                                                | 3.93                                                | 3.77                                                |
| Efficiency Ratio                                                             | 81.40                                               | 77.62                                               | 72.37                                               |
| Loan loss reserve to total loans                                             | 0.83                                                | 0.86                                                | 0.96                                                |
| Nonperforming assets to total average assets                                 | 0.09                                                | 0.05                                                | 1.07                                                |
| Net charge-offs to total average assets                                      | 0.00                                                | 0.01                                                | 0.00                                                |
| Net interest margin                                                          | 4.29                                                | 4.02                                                | 3.86                                                |