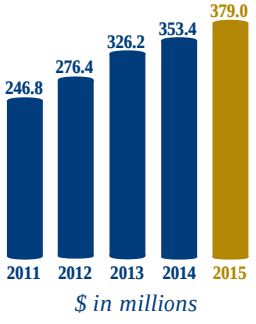
South Atlantic Bank

Take Stock

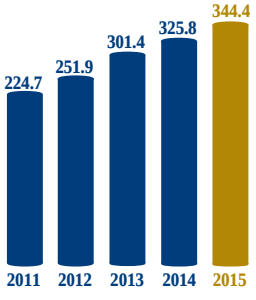
Second Quarter 2015

Total Assets *(June 30)*



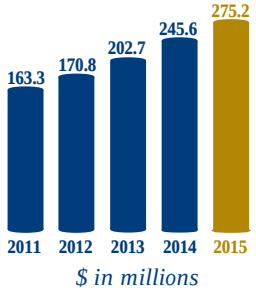
$ in millions

Total Deposits *(June 30)*



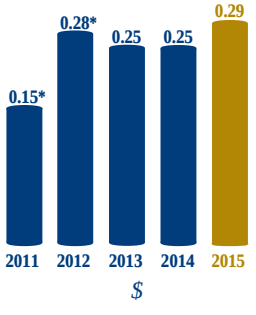
$ in millions

Total Loans *(June 30)*



$ in millions

Diluted Earnings per Share *(June 30)*



$

**Pre-tax EPS. Company became fully taxable in 2013.*

Mortgage Loans and Merchant Services Lead the Way

At the year's mid-point, South Atlantic Bank posted increased earnings, fueled by growth in net interest income along with continued improvement from our merchant services and mortgage banking divisions.

Net income for the first six months of 2015 rose to $1,017,339 or $0.29 per diluted share, from $879,158 or $0.25 per diluted share reported for the same period a year ago. This represents an increase of 15.7 percent in earnings year-over-year and the company's 18th consecutive quarterly profit.

Growth in the mortgage banking and merchant services divisions contributed to a 58.1 percent increase in noninterest income for the first six months of the year, net of securities gains. Our success in these areas can be attributed to several factors. A strengthening economy has brought consumers back into the real estate market as both existing home sales and housing starts are at their highest levels in a number of years. Our revamped mortgage banking division is hitting its stride at the right time as the real estate sector improves. Stronger consumer confidence is boosting spending for consumer goods and services, leading to growth in our markets.

Improved economic conditions are also driving the summer tourist season which is off to a good start. With customer cash flows at their strongest during the summer, we are seeing the usual seasonal pay downs of loans and lines of credit. Pay down activity began as early as May and June this year, another good indicator of a strong season.

Total loans grew 12 percent for the first six months of 2015, when compared to the first six months of 2014. Competition for quality credits is heating up, yet another sign of improved economic conditions. Many banks are in much better shape now than during the recent recession, and better health means that more of them are now in a position to compete. Our loan officers will continue to pursue good lending opportunities that develop relationships and make business sense for our bank. In this period of loan growth, our credit quality remains strong, with just one past due in the second quarter and no net charge-offs.

Increased competition, along with the continued low interest rate environment, will keep pressure on the net interest margin. Our margin reached the 4 percent mark in March, and for the past few months, has been in the 3.73 to 3.86 percent range. Careful deposit mix management has helped our margin while rates are low. The Federal Reserve has signaled a willingness to raise the Federal funds rate based on economic conditions perhaps as early as their September meeting. A rate increase could bring further improvement in the margin as loans generally reprice more quickly than deposits.

Work continues on plans for our new building in Mount Pleasant on Johnnie Dodds Boulevard. We are in the process of finalizing the floor plan and elevations for submission to the town of Mount Pleasant for their approval. The new building will be similar in style and appearance to our Murrells Inlet location, with the first floor used for our banking operations and the second floor leased to tenants.

While much hard work remains to be done, we have built a strong foundation for future success during the first half of 2015. We hope you are pleased with our progress and look forward to sharing future updates with you.

Inside this Issue

...New Look for Newsletter!...It's all About the Service..School Art Contest...Drive-Thru Service...Promotions and Additions...Upcoming Events...

Selected Financial Highlights

	For the Three Months Ended June 30, 2015	For the Three Months Ended March 31, 2015	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014
Year End/Quarter End Balances (in thousands)				
Total assets	$ 378,887	$ 356,736	$ 378,887	$ 353,406
Investment securities	49,161	51,386	49,161	71,539
Loans, net of unearned income (total loans)	275,174	268,736	275,174	245,585
Deposits	344,432	322,482	344,432	325,793
Shareholders' equity	33,506	33,679	33,506	26,740
Average Balances (in thousands)				
Total assets	$ 359,385	$ 352,383	$ 359,385	$ 332,623
Earning assets	328,152	327,515	328,152	309,948
Investment securities	51,473	51,987	51,473	71,002
Loans, net of unearned income (total loans)	269,836	264,121	269,836	233,804
Deposits	322,996	314,232	322,996	298,140
Shareholders' equity	33,246	32,582	33,246	25,763
Earnings Breakdown (in thousands)				
Total interest income	$ 3,463	$ 3,369	$ 6,832	$ 6,434
Total interest expense	285	266	551	635
Net interest income	3,178	3,103	6,281	5,799
Total noninterest income	648	688	1,336	691
Total noninterest expense	3,061	3,028	6,089	5,127
Provision for loan losses	65	100	165	325
Income before taxes	701	663	1,364	1,038
Taxes	166	181	346	159
Net income	535	483	1,017	879
Diluted earnings per share	0.15	0.14	0.29	0.25
Selected % Increases	*(Compared to previous quarter.)*		*(Year over year.)*	
Total assets	6.21%	(1.82)%	7.21%	8.34%
Total interest earning assets	6.55%	(2.17)%	6.93%	8.99%
Total loans	2.40%	2.46%	12.05%	21.16%
Total deposits	6.81%	(1.26)%	5.72%	8.08%
Interest income	2.81%	3.04%	6.17%	16.96%
Interest expense	7.39%	(4.28)%	(13.28)%	(6.85)%
Noninterest income	(5.87)%	35.02%	93.53%	(36.70)%
Noninterest expense	1.06%	9.44%	18.76%	24.41%
Net income	10.85%	(7.60)%	15.71%	1.70%
Selected Ratios (year-to-date)				
Return on assets	0.60%	0.56%	0.57%	0.53%
Return on equity	6.52%	6.01%	6.17%	6.88%
Interest income to total average assets	3.91%	3.88%	3.83%	3.90%
Interest expense to total average assets	0.32%	0.31%	0.31%	0.38%
Net interest income to total average assets	3.59%	3.57%	3.52%	3.52%
Loan loss reserve to total loans	1.01%	1.02%	1.01%	1.07%
Nonperforming assets to total average assets	0.13%	0.12%	0.13%	0.21%
Net charge-offs to total average loans	0.00%	0.00%	0.00%	0.04%
Net interest margin	3.80%	3.90%	3.85%	3.85%

It's all About the Service!

Introducing our Revamped Newsletter!

Now in its eighth year of publication, our shareholder newsletter has a new name – *Take Stock* – and a new look ! The newsletter will continue to feature □nancial highlights and commentary on our □nancial performance along with stories on our activities in the community and our employees. We hope you continue to enjoy this quarterly publication!

New Ad Campaign Touts Drive-Thru Service

Some commercial banks have evaluated their drive-thru service and opted to discontinue it, citing reduced tra□c.

We're pleased to report that South Atlantic Bank's drive-thrus continue to experience strong use. In fact, consumers in Pawleys Island waited to move to their accounts to our bank until we opened our new o□ce and could o□er this convenience.

As a community bank, we want our customers to be comfortable banking with us. No matter how our customers want to do their banking – online, in a branch, on the phone, or at the drive-thru – we are pleased to provide service.

Our ability and willingness to provide drive-thru service di□erentiates our bank from larger, more impersonal institutions. A new ad entitled "Drive by Anytime!" lets customers know that they are welcome in our drive-thru lanes. The campaign included print media, statement inserts and branch handouts, and will be featured on our website in the near future. A radio ad has also been developed. The ad stars our own Linda Coleman, a teller at the Georgetown o□ce, and customer Sammy Crayton and his dog, Boss.



Georgetown teller Linda Coleman greets Sammy Crayton and his dog, Boss, at the drive-thru. Both Sammy and Boss look forward to their visits and appreciate the convenience the drive-thru provides.

Summer Campaign Focuses on Home Equity Lines of Credit

Home equity lines of credit (HELOCs) have been around since the late 80s, and many a homeowner has bene□tted from their use.

HELOCs allow homeowners to use the equity they have built up in their homes to pay for the things they need today. Common uses are for personal expenses, new cards, home repairs or improvements, vacations, or to consolidate higher rate debt.

The line of credit is a win-win for the bank and the customer. The customer has instant access to the funds via convenient checks that come with the line. A single line of credit can be used for a number of purposes without having to get a new loan when emergencies or the need for new expenditures arise.

South Atlantic Bank's HELOC has no origination fees, a 15-year maturity, a $10,000 minimum line amount, and two payment options – interest-only and 1.5 percent of the balance. The bank charges a variable rate that moves with the *Wall Street Journal* Prime Rate and has a ceiling of 18 percent. Interest may be tax-deductible on the customer's federal income tax return. All in all, it's a very □exible product, designed to meet customers' changing needs.

During the summer months, we promoted the product using statement inserts, posters, our website, and a direct mailer in the North Myrtle Beach area to support this new location. We also provided sales sta□ with conversation starters and sales tips to engage the customer in conversation about this great product.



HELOC poster displayed in branches.

Young Artists Honored

Second and third graders at Myrtle Beach Elementary School put crayon and markers to paper in our 5th Annual Children's Art Contest. The art contest grew out of the tours the bank hosts each winter for the students. More than 700 students visited our Myrtle Beach headquarters in January and February and then drew pictures of their experiences. Employees voted for their favorites and eight lucky winners received a cash prize at the May 11th reception attended by the children, their parents and teachers, and bank o□cials. The school's art program also received a $200 grant from the bank to support future artistic endeavors. Art teacher Paula Patten, in her □rst year of teaching at the school, accepted the award and spoke about several projects that the grant would help fund.

The student award winners are:

Grade 2	Grade 3
1st Place	*1st Place*
Emma Clegg-Moore	Ella Conder
2nd Place	*2nd Place*
Phyllisian Houghton	Logan Lane
3rd Place	*3rd Place*
Ozodbek Nurmotov	William Chapman
Honorable Mention	*Honorable Mention*
Antoniette Brockington	Eleanor Brown



At left: Logan Lane's pencil and crayon drawing of the exterior of our Myrtle Beach headquarters includes many interesting features: our fountain, the louvered shutters, a light pole, and a car exiting the tra c circle in front of the building.

Below: Michelle Greene-Graham, principal of Myrtle Beach Elementary School, and Scott Plyler congratulate one of the winning artists.



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Address Changes and Additions

To update the U.S. mail and e-mail addresses that you have on file with us, please visit the Investor Relations section of our website, SouthAtlanticBank.com.

SouthAtlanticBank.com > Who We Are > Investor Relations

Click on the link for the form, follow the directions provided, and and return the form to us. Your information will be updated upon receipt.

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.

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C.L. Benton and Sons, Inc.

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Attorney at Law
Brittain Law Firm, P.A.

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South Atlantic Bank

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South Atlantic Bank

Locations

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North Myrtle Beach
1801 Highway 17 South
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Mount Pleasant
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(P) 843.972.4300

Murrells Inlet
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(P) 843.848.2000

Pawleys Island
10970 Ocean Highway
(P) 843.848.2049

Georgetown
1187 North Fraser Street
(P) 843.436.6800

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It's the People Who Make the Difference

Staff Promotions and Additions



Shirley Kulcsar is now assistant vice president and loan assistant at our Pawleys Island office. In her new role, Shirley has both loan administration and Compliance One document preparation software responsibilities. She joined South Atlantic Bank when it opened in November 2007, working as a personal banker at the Myrtle Beach office. In November 2008, she moved to the Murrells Inlet office for its opening, serving in a similar capacity. In June 2011, she was promoted to the management training program, and was named assistant vice president and loan administration specialist in January 2012. She began her banking career with Anchor Bank in 1994. A Surfside Beach native, Shirley graduated from Socastee High School and now resides in Murrells Inlet.



Ann-Marie White has joined the bank's loan operations area as a loan administration specialist. She has twelve years of loan experience, beginning in 2003 as a mortgage loan processor with Beazer Homes. In 2008, she joined Atlantic Bank and Trust, now First Citizens, as a loan operations specialist and loan processor. Most recently, she held a loan administrator position with Sandhills Bank. Ann-Marie earned B.A. and M.A. degrees in psychology from Roanoke College and Marshall University, respectively. A native of Roanoke, Virginia, Ann-Marie has resided in the Myrtle Beach area for 15 years.



Stephen Windham is serving as a summer intern at the bank's Myrtle Beach headquarters. He is shadowing bank employees in customer contact and operational roles to learn the skills necessary to succeed in the banking industry. Stephen is a Charleston native, where he currently attends The Citadel and is working toward a degree in business administration. He is also a member of the Citadel Bulldogs' baseball team and participates in the school's leadership program, volunteering at least 12 hours in the community each year. Stephen is on track to graduate in spring 2016.



Christopher Cassidy is also spending his summer at South Atlantic Bank, interning in the credit/underwriting and loan operations areas of the bank to gain knowledge of financial operations. He is currently an undergraduate student at Coastal Carolina University, concentrating in Wealth Management within the finance program. He plans to graduate in December 2015 and pursue a career in finance. Chris hopes to obtain a Chartered Financial Analyst designation and work on a master's degree in Quantitative Finance in the future.

Upcoming Events!

Mark your calendars now for these special events at South Atlantic Bank!

Now Through September 10: We will hold a raffle to raise funds for the Grand Strand Miracle Leagues in support of their baseball fall opener, to be held on September 10 at the James C. Benton Miracle League Field (Pepper Geddings Recreational Complex at 33rd Avenue North and Oak Street). This year, we are giving away an iPad Air® to a lucky winner! See the flyer included with this newsletter, or visit your South Atlantic Bank office or SouthAtlanticBank.com for details. Please help us in supporting this important organization.

October and November: Special events will take place at the **Georgetown, Murrells Inlet, North Myrtle Beach,** and **Myrtle Beach** offices on **October 2, October 23, October 30, and November 6**, respectively. Each event will take place from 11 a.m. to 2 p.m. and feature delicious food along with a prize drawing for a Pleasant Hearth Martin fire pit. Mark your calendars now and plan to have lunch with your friends at South Atlantic Bank. We look forward to seeing you!

Next Issue

...Financial Update...New Look for Credit Cards...Grand Strand Miracle League Update...Promotions and Additions...Upcoming Events...