South Atlantic Bank Quarterly Newsletter
2014 FIRST QUARTER

South Atlantic Bank
People You Know & Trust.

First Quarter Financial Snapshot

- String of consecutive quarterly profits continues
- Net income of $374,663
- Total assets grow 11.9%
- Total loans grow 17.3%
- Total deposits grow 10.6%
- NIM improves to 3.87%
- Credit quality remains strong
- Core deposits grow

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E-Newsletter to Make its Debut!

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Bank Maintains Profitability in First Quarter

South Atlantic Bank continued its string of consecutive quarterly profits with net income of $374,663 or $0.12 per diluted share for the three months ended March 31, 2014. These figures represent a 1.5 percent increase when compared to the $369,175 or $0.12 per diluted share reported for the three months ended March 31, 2013.

During the first quarter, we continued to process our expansion that began late last year with the addition of mortgage personnel and new locations in Georgetown and Mount Pleasant. While the expenses associated with the expansion contributed to a 30.5 percent increase in noninterest expense in the first quarter, the new endeavors are already contributing to our profitability. We expect to see continued improvement throughout 2014 as our presence and stature further develop in the new markets.

Net interest income grew 20.3 percent in the first quarter, fueled in part by pleasing loan growth of 17.3 percent. We experienced solid loan growth across all markets, and particularly in Georgetown and Mount Pleasant, with both locations reporting significant gains over the previous quarter.

Loan demand, spurred on by a strengthening economy, is improving, and competition for quality earning assets is keen in our coastal markets. Our loan officers are working hard to seek out healthy, well-structured lending opportunities that meet our traditional standards of credit quality. With no net charge-offs and nonperforming assets to total average assets of just 0.23 percent at the end of the first quarter, the bank's credit quality remains strong. These figures compare very favorably to the same period a year ago and to our peer group banks.

During the first quarter, total deposits grew 10.6 percent, from $269.7 million for the three months ended March 31, 2013, to $298.4 million for the three months ended March 31, 2014. Core deposits—low-cost and noninterest bearing deposits—grew 32.9 percent and 45.9 percent, respectively during this time period. Growth in these categories is due to the expansion of customer relationships and indicates that our bank is very well-accepted in the communities we serve.

The net interest margin improved by 25 basis points, moving from 3.62 percent at March 31, 2013, to 3.87 percent at March 31, 2014. This improvement is due to growth in noninterest income from increased loan activity, along with a decline in interest expense due to the current low rate environment. We remain focused on the margin as a main driver of our profitability.

The historically inclement weather that brought two rare ice storms to coastal South Carolina affected performance in the first quarter, particularly in mortgage loans. Winter storms along the entire the eastern seaboard weakened home sales, especially in February as potential buyers could not get out to look at homes. With the advent of better weather this spring, we are already seeing an uptick in mortgage activity and expect this trend to continue.

In other news, our bank received a "Business Innovation" award from the Myrtle Beach Area Chamber of Commerce during its annual meeting in April. The award recognizes the bank's commitment to providing technologically advanced products that are innovative, safe, and secure. It is truly an honor for us to receive this recognition.

Our year is off to a good start, and we have the structure and plans in place for a great 2014. We appreciate your support and will continue to work hard for your investment. Please call on us if we can assist you.



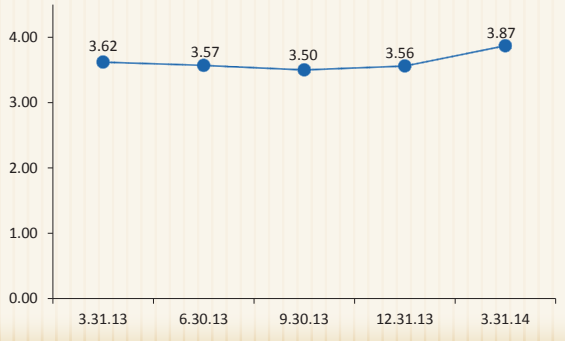
~ Myrtle Beach Elementary School Tours ~

Selected Financial Highlights

	For the Three Months Ended March 31, 2014	For the Twelve Months Ended December 31, 2013	For the Three Months Ended March 31, 2013
Year End/Quarter End Balances (in thousands)			
Total assets	$ 330,650	$ 318,057	$ 295,614
Investment securities	67,846	73,727	61,980
Loans, net of unearned income (total loans)	232,091	218,174	197,937
Deposits	298,363	285,519	269,729
Shareholders' equity	25,653	24,141	25,364
Average Balances (in thousands)			
Total assets	$ 323,697	$ 307,746	$ 289,610
Earning assets	301,025	281,908	268,552
Investment securities	70,871	69,880	58,399
Loans, net of unearned income (total loans)	226,844	199,817	195,308
Deposits	287,413	281,306	263,589
Shareholders' equity	25,063	24,904	25,683
Earnings Breakdown (in thousands)			
Total interest income	$ 3,143	$ 11,291	$ 2,683
Total interest expense	314	1,311	330
Net interest income	2,829	9,980	2,352
Total noninterest income	297	1,996	369
Total noninterest expense	2,544	9,154	1,949
Provision for loan losses	150	730	165
Income before taxes	432	2,092	608
Taxes	57	447	238
Net income	375	1,645	369
Selected % Increases (year over year)			
Total assets	11.85%	11.61%	23.38%
Total interest earning assets	11.98%	11.93%	24.46%
Total loans	17.26%	14.85%	16.22%
Total deposits	10.62%	10.10%	24.81%
Interest income	17.15%	12.89%	9.18%
Interest expense	(4.89)%	(19.08)%	(16.86)%
Noninterest income	(19.50)%	(24.15)%	28.67%
Noninterest expense	30.52%	14.55%	17.80%
Selected Ratios (year-to-date)			
Return on assets	0.47%	0.53%	0.52%
Return on equity	6.08%	6.60%	6.14%
Interest income to total average assets	3.94%	3.67%	3.76%
Interest expense to total average assets	0.39%	0.43%	0.46%
Net interest income to total average assets	3.54%	3.24%	3.29%
Loan loss reserve to total loans	1.10%	1.10%	1.20%
Nonperforming assets to total average assets	0.23%	0.13%	0.97%
Net charge-offs to total average loans	0.00%	0.21%	0.05%
Net interest margin	3.87%	3.56%	3.62%

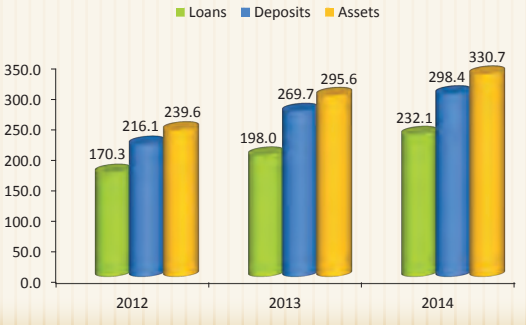
Net Interest Margin

(%)



Three Year Comparison

as of March 31 ($ in millions)



On the Banking Front

Groundbreaking in Pawleys Island

A groundbreaking ceremony took place at our site in Pawleys Island in late April. Officials from the bank's staff and board of directors, along with representatives from Coastal Structures, donned hard hats and wielded shovels for the special occasion. We expect to open the new office in late fall 2014.







The photos at left and center show the progress at the construction site. A track hoe was used to clear the lot, which gave the operator more control over placing the cut trees. The use of this equipment to clear the lot, instead of a bulldozer, kept the trees being removed from damaging the remaining hardwoods. At right, ground is officially broken for the new office.

Community Involvement

Bank Plays Role in Several Special Events

South Atlantic Bankers were busy during the first quarter with a variety of community activities, including:

Providing Tours and Bicycles. Nearly 700 Myrtle Beach Elementary School students toured our Main Office in January and February to see banking in action. Before their visit, the children studied banking using the "Saving with Mandy and Randy" curriculum that the bank provides to area schools. The trip to the bank brought the classroom lessons to life, as students learned about the teller and customer service functions, saw demonstrations of the coin and cash counters, and visited the operations area of the bank. Photos from the tours are featured on the front cover of this newsletter. Also this year, two lucky students with perfect attendance at Seaside Elementary School received bicycles in honor of their achievement. This program brings a lot of excitement to the school while encouraging attendance. We are glad to partner with the schools in our communities for these special events.

Raising Funds. Our employees raised $1,473 for the American Red Cross during its annual Heroes Campaign, exceeding our goal of $1,250. Fundraisers included the sale of dress down Fridays and raffle tickets for prizes including a day off with pay. The Heroes Campaign helps the Red Cross raise the funds needed to take care of families during emergencies such as fires or other disasters.

Racing for the Inlet. South Atlantic Bank and Waccamaw Community Hospital served as the title sponsors for the Race for the Inlet held in March at Morse Park Landing. This year's race took place in the rain, but the weather couldn't dampen the spirits of our South Atlantic Bank runners and volunteers. The Race for the Inlet is held annually in support of Murrells Inlet 2020, an non-profit organization formed for the betterment of the community.



At right, our team members smile through the rain drops during the Race for the Inlet.

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South Atlantic Bank

Our Mission is 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.

It's the People Who Make the Difference

Staff Additions and Promotions



Alison Van Wagner is a teller at the Murrells Inlet office. Prior to joining South Atlantic Bank, she served as a personal banker at First Federal in Murrells Inlet. Alison is a graduate of Coastal Carolina University with a B.A. degree in communications. She is a member of the Myrtle Beach Adult Kickball League and a former member of GS Scene. A native of Athens, Tennessee, she has resided in Myrtle Beach for seven years.



Danielle Martin-Ebert has come on board as a mortgage loan processor, working from our Myrtle Beach headquarters. Danielle brings 16 years of mortgage experience to her new post at the bank. Prior to joining South Atlantic Bank, she worked as a mortgage loan processor for First Home Equity Loans. She hails from Flemington, New Jersey, and has resided in Myrtle Beach for six years.



Sharon Vane is a loan servicing specialist based at our Myrtle Beach headquarters. She has 24 years of business experience, including 13 years in banking. Sharon most recently served BNC Bank in Myrtle Beach as a loan review specialist and loan operations assistant. Originally from Brooklyn, New York, she has resided in Myrtle Beach for 15 years.



Rose Mary Hanna joined our bank as a teller at the bank's Myrtle Beach headquarters at 630 29th Avenue North. Rose Mary brings 18 years of teller experience to her new post and most recently served as a teller supervisor at CresCom Bank in Myrtle Beach. She is a native of Greenville, North Carolina, and has resided in Murrells Inlet for 15 years.

E-Newsletter to Make its Debut!

We now have an electronic version of our newsletter and shareholders who have provided their e-mail addresses to the bank will receive a copy in their e-mail in-boxes. The e-newsletter includes all the stories from the printed version in an easy-to-navigate format.

To receive the e-newsletter, please provide us with your e-mail address if you have not already done so. The form is available at the Investor Relations section of our website, SouthAtlanticBank.com. It's easy to find:

SouthAtlanticBank.com > Who We Are > Investor Relations.

In the Mailing List Update section at the top of the page, click on the link for the form. Follow the directions provided and we will update your records upon receipt. You can send your form back to us via e-mail, U.S. mail, fax, or if you prefer, drop it off at any of our five locations.

We will e-mail the quarterly newsletter to you, along with periodic updates about new products and services. Be assured that we will not give your mailing address or your e-mail address to any other person or company.

Thank you for providing your e-mail address.

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