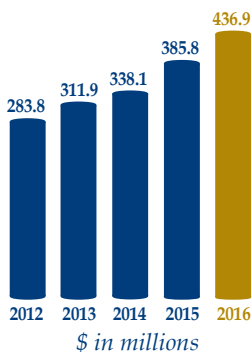


Total Assets (September 30)



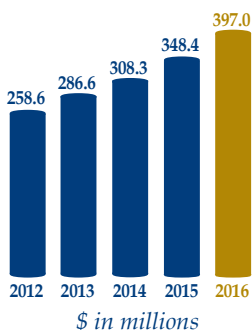
Momentum Rolls in Third Quarter

In a third quarter filled with achievements, South Atlantic Bancshares recorded the best financial performance of its nine-year history.

Net income for the three months ended September 30, 2016 was \$815,653 or \$0.21 per diluted share, compared to the \$595,015 or \$0.15 per diluted share reported for the same period a year ago. These figures represent a 37.1 percent increase in net income when compared to last year's third quarter.

Net income for the nine months ended September 30, 2016, was \$1,945,321 or \$0.49 per diluted share, compared to \$1,612,354 or \$0.42 per diluted share for the nine months ended September 30, 2015. Year over year, net income rose 20.7 percent.

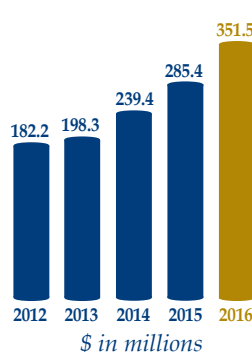
Total Deposits (September 30)



The company's historic performance in the third quarter is attributed to growth throughout its geographic footprint. Our established branches and our newer locations have performed well. The mortgage area contributed to the company's success, helping fuel improvement in noninterest income with increased activity in new construction and in refinancing. Expense control is a factor as well, as we have managed our growth conservatively.

Both total loans and total deposits recorded double digit growth. Total loans rose 23.2 percent, from \$285.4 million at September 30, 2015 to \$351.5 million at September 30, 2016, which helped to offset seasonal pay downs. Total deposits increased 13.9 percent, from \$348.4 million at September 30, 2015 to \$397.0 million at September 30, 2016.

Total Loans (September 30)



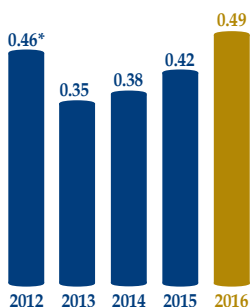
Despite growth in the loan portfolio and in core deposits, pressure will remain on the net interest margin for some time into the future, due to the low interest rate environment and increased competition. The Federal Reserve stood pat on a rate hike at its September meeting, leaving open the possibility for a change in December, but at this point in time, it is not a certainty.

In other banking news, deposit market share data recently released by the FDIC shows that South Atlantic Bank has made significant gains in the markets it serves. On the strength of five locations along the Grand Strand, the bank now ranks seventh in deposit market share for Horry and Georgetown counties, out of a total of 23 financial institutions. In Myrtle Beach zip code 29577, the bank ranks third overall. Numbers in the South Strand are equally as positive, with a first place ranking in Murrells Inlet, third place in Pawleys Island, and outstanding gains in Georgetown. Additionally, our presence in the Mount Pleasant market is gaining traction with a strong team leading the way. The Charleston/Mount Pleasant market is one of the fastest growing regions in the country and we are excited about its potential for the bank. Construction is well underway on the new building that will serve as our headquarters in the region and we will keep you posted on our progress.

Our employees are to be commended for their efforts to help the bank and its customers during Hurricane Matthew. We followed our established plan for disaster recovery and business continuity and were able to re-open on the first business day after the storm moved on, demonstrating that our preparations paid off.

As the year draws to a close, we hope you are pleased with the progress outlined in this update. As always, we appreciate your support and will continue to work hard for your investment.

Diluted Earnings per Share
(September 30)



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

Inside this Issue

...Selected Financial Highlights...Grand Strand Miracle Leagues Fundraiser a Success...Mount Pleasant Progress...Additions and Promotions...

Selected Financial Highlights

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Year End/Quarter End Balances (In Thousands)				
Total assets	\$ 436,881	\$ 385,780	\$ 436,881	\$ 385,780
Investment securities	45,282	49,481	45,282	49,481
Loans, net of unearned income (total loans)	351,499	285,364	351,499	285,364
Deposits	396,985	348,414	396,985	348,414
Shareholders' equity	38,330	34,635	38,330	34,635
Average Balances (In Thousands)				
Total assets	\$ 455,675	\$ 389,895	\$ 427,703	\$ 369,667
Earning assets	422,539	346,608	394,244	331,588
Investment securities	40,648	50,203	41,269	51,045
Loans, net of unearned income (total loans)	346,691	280,638	334,246	273,476
Deposits	416,033	354,494	380,149	333,611
Shareholders' equity	38,449	34,216	37,327	33,573
Earnings Breakdown (In Thousands)				
Total interest income	\$ 4,215	\$ 3,586	\$ 12,193	\$ 10,418
Total interest expense	378	309	1,066	860
Net interest income	3,837	3,277	11,127	9,558
Total noninterest income	1,002	618	2,331	1,954
Total noninterest expense	3,562	3,086	10,316	9,175
Provision for loan losses	175	–	495	165
Income before taxes	1,102	809	2,647	2,173
Taxes	286	214	702	560
Net income	816	595	1,945	1,612
Diluted earnings per share	0.21	0.15	0.49	0.42
Selected % Increases (Year over Year)				
Total assets	13.25%	14.10%	13.25%	14.10%
Total interest earning assets	12.67%	12.91%	12.67%	12.91%
Total loans	23.18%	19.20%	23.18%	19.20%
Total deposits	13.94%	13.02%	13.94%	13.02%
Interest income	17.51%	8.40%	17.04%	6.93%
Interest expense	22.07%	12.43%	23.99%	(5.51)%
Noninterest income	62.18%	22.35%	19.29%	63.46%
Noninterest expense	15.43%	13.28%	12.44%	16.86%
Net income	37.08%	(1.33)%	20.65%	8.78%
Selected Ratios (Year-to-Date)				
Return on assets	0.71%	0.61%	0.61%	0.58%
Return on equity	8.44%	6.90%	6.96%	6.42%
Interest income to total average assets	3.67%	3.65%	3.81%	3.77%
Interest expense to total average assets	0.33%	0.31%	0.33%	0.31%
Net interest income to total average assets	3.34%	3.33%	3.48%	3.46%
Loan loss reserve to total loans	0.97%	1.00%	0.97%	1.00%
Nonperforming assets to total average assets	0.11%	0.14%	0.12%	0.15%
Net charge-offs to total average loans	(0.02)%	(0.01)%	(0.02)%	(0.01)%
Net interest margin	3.67%	3.64%	3.83%	3.78%

Bankers Hit it out of the Park for the Grand Strand Miracle Leagues

South Atlantic Bank set a new record for the Grand Strand Miracle Leagues' (GSML) Fall Baseball Opener, raising \$7,116 in support of the organization. The bank became a sponsor in 2009, and each year, its donation to the organization has grown progressively, thanks to the efforts of our employees and customers alike.

Bank employees raised money throughout the summer with Dress Down Fridays and collected donations from customers in all of our offices. Employees also volunteered at the Fall Opener, serving the barbecue supper to the players and their families, helping on the field as buddies to the players, and selling t-shirts.

The event took place Thursday, September 8, at the James C. Benton Miracle League Field in Myrtle Beach.



Carson Benton, chairman of the GSML board, congratulates South Atlantic Bank President Scott Plyler on the fundraising effort as Dick Burch, the bank's chief financial officer, looks on.

South Atlantic Bank officials including Scott Plyler and Dick Burch were on hand to present the fundraising proceeds to GSML Board Chairman Carson Benton and Executive Director Jennifer Averette in ceremonies preceding the game.

The Miracle Leagues organization was founded in 2001 to provide people with special needs the opportunity to play baseball. The rules are simple: Everyone plays. Everyone crosses home plate. Everyone wins! The organization expanded in 2011 to include soccer, and in 2013 added the All-Star Park, an all access playground, and golf in 2015.

For more information about the Miracles Leagues, visit their website: <http://grandstrandmiracleleagues.com>.



A member of the Coastal Carolina baseball team helps the players navigate the basepaths during the game. Spectators and players alike enjoyed a delicious barbecue supper after the game.

Progress in Mount Pleasant

Our construction site on Johnnie Dodds Boulevard is busy with activity! During the third quarter, site work continued for the new office with the sediment pond and storm water drainage system now in place. Many of the in-ground items including electricity and plumbing are in place. In October, the concrete was poured for the elevator and first floor, which means that we will see the building "go vertical" very soon with framing to start later in the month.



The lot was cleared in July in preparation for the site work. Barring any weather or unforeseen issues, we should complete and occupy the new facility in summer 2017.

In other Mount Pleasant news, **Eric Wooten** has joined the staff as a vice president and commercial relationship manager. He has 37 years of banking experience and most recently served CommunityOne Bank in Mount Pleasant as a commercial lender. Prior to joining CommunityOne, he worked at First Federal as the director of commercial credit risk management. A graduate of The Citadel, Eric holds B.S. degree and M.B.A. degrees. A past chairman of the South Carolina Bankers Association credit committee, he is currently treasurer of The Citadel Alumni Association and has served on its board of trustees.



Another view of the lot, with site prep underway. Onlookers will soon see the frame take shape.

It's the People Who Make the Difference

Staff Promotions and Additions

Stacy Johnson was promoted to teller supervisor at the bank's Myrtle Beach headquarters. She has more than 13 years of banking experience and was named a teller in Myrtle Beach in January 2015. Prior to joining South Atlantic Bank, she served as a sales and service specialist with Bank of America in Myrtle Beach. A native of New Jersey, Stacy now resides in the Myrtle Beach area.



Liz Miles was promoted to the deposit operations department as a specialist. Liz joined South Atlantic Bank as a teller supervisor at our Myrtle Beach headquarters in December 2014. She has 17 years of business experience, including several years of service as a relationship banker with BB&T. She attended Ashford University, working toward a degree in accounting. A native of Pittsburgh, Liz has resided in the Grand Strand area for 18 years.

Page Moore is a new teller at the bank's Murrells Inlet office. Her five years of business experience include two years as a teller for BB&T. She also has experience in the hotel and restaurant lines of business. A long-time resident of Myrtle Beach, Page graduated from Myrtle Beach High School and holds an A.A.S. degree from Horry-Georgetown Technical College in culinary arts.



Savannah Richard is a new teller at our Myrtle Beach headquarters. She originally joined South Atlantic Bank in October 2015 as a float teller for the Grand Strand locations, traveling to branches as staffing needs dictated. She is a graduate of the University of South Carolina with a B.A. degree in psychology. A life-long resident of the Grand Strand, Savannah now resides in North Myrtle Beach.

Kathy Bougher transferred to the bank's Pawleys Island office to serve as a part-time teller. She joined South Atlantic Bank in April 2013 in a similar position at the Murrells Inlet office. Kathy has ten years of teller experience and attended Catawba College in Salisbury, North Carolina. A native of Annapolis, Maryland, she has resided in Pawleys Island for the past 11 years.



Joanna Slider is a new specialist in the loan operations department. She began her banking career 20 years ago in New York as a teller and advanced to roles in internet banking and loan operations. She relocated to South Carolina in 2008 and has worked in electronic banking and card services for two area financial institutions. She resides in Myrtle Beach.

Kelly Riegel joined our Murrells Inlet staff as a part-time teller. She has 11 years of banking experience as a teller and assistant branch manager. Prior to relocating to Murrells Inlet in summer 2016, she worked as an administrative assistant at a Baltimore, Maryland-based accounting firm. She is a graduate of Harford Community College with an A.A degree in office administration.



Next Issue

...Year-End Financials...Customer Appreciation Days...Mount Pleasant Progress...Additions and Promotions...

Recent Happenings



September 11th Remembered — Michelle Coletta, vice president and retail business development officer, sets up a patriotic wreath in the Myrtle Beach office on September 9. Each year, South Atlantic Bank remembers the victims of the September 11th terrorist attacks in New York City, Washington, and Shanksville, Pennsylvania by placing wreaths in each of its six locations. At the end of the business day, the wreaths are donated to local veterans' groups or nursing homes.

Banker Addresses Seminar — Paul Peeples, senior vice president, commercial lending, spoke to a gathering of Tradd Commercial real estate agents on September 12. He reviewed the many lending options available for commercial real estate including the SBA 504 loan program and USDA Business and Industry loans, along with traditional bank lending products.



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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, SouthAtlantic.bank.

SouthAtlantic.bank > Who We Are > Investor Relations

Click on the link for the form, follow the directions provided, 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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Attorney at Law
Brittain Law Firm, P.A.

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South Atlantic Bank

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Zeb Thomas, Jr.

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Wayne Wicker

Chairman and
Chief Executive Officer
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