RECEIVED

MAR - 9 2016

FR Y-6
OMB Number 7100-0297
Approval expires September 30, 2018
Page 1 of 2

Board of Governors of the Federal Reserve System

FRB RICHMOND

COPY

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, Robert L. McKinney
Name of the Holding Company Director and Official

Director & President & CEO
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Robert L McKinney
Signature of Holding Company Director and Official

02/24/2016
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 3393794
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2015
Month / Day / Year

None
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address
Atlantic Bancshares Inc.
Legal Title of Holding Company

PO Box 3077
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Bluffton	SC	29910

One Sheridan Park Circle, Bluffton SC 29910
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Michelle M. Pennell	CFO

843-707-0170
Area Code / Phone Number / Extension

843-815-7115
Area Code / FAX Number

mpennell@atlanticcommunitybank.com
E-mail Address

www.atlanticcommunitybank.com
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

- [ ] Yes Please identify the report items to which this request applies:
  - [ ] In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
  - [ ] The information for which confidential treatment is sought is being submitted separately labeled "Confidential."
- [x] No

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Form FRY-6

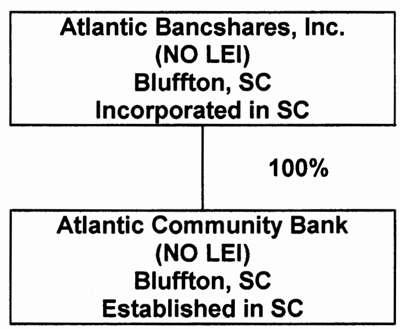
Atlantic Bancshares, Inc.
One Sheridan Park Circle
PO Box 3077
Bluffton, SC 29910

Fiscal year ended December 31, 2015

Report Item

1. The bank holding company prepares an annual report for its securities holders.

2(a). Organizational Chart



2(b). Submitted via email on 01/13/2016

3. Securities holders > 5%
   - 3.1 Woods Holding, Inc., 24.0% - common stock and preferred stock
     Ridgeland, SC USA
     @12/31/2015 = 637,517 common stock owned plus 1,230 AAA preferred stock and 10,000 vested stock options = 648,747
   - 3.2 None

4. Insiders (see attached)

Results: A list of branches for your depository institution: ATLANTIC COMMUNITY BANK (ID_RSSD: 3393785).
This depository institution is held by ATLANTIC BANCSHARES, INC. (3393794) of BLUFFTON, SC.
The data are as of 12/31/2015. Data reflects information that was received and processed through 01/07/2016.

emailed 1/13/16

rich.frb.e
rich.frb.org

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	3393785	ATLANTIC COMMUNITY BANK	ONE SHERIDAN PARK CIRCLE	BLUFFTON	SC	29910	BEAUFORT	UNITED STATES	438889	0	ATLANTIC COMMUNITY BANK	3393785	
OK		Full Service	3689394	HILTON HEAD ISLAND BRANCH	1 CORPUS CHRISTIE PLACE, SUITE 108	HILTON HEAD ISLAND	SC	29928	BEAUFORT	UNITED STATES	469484	1	ATLANTIC COMMUNITY BANK	3393785	

Form FRY-6
Atlantic Bancshares, Inc.
Fiscal year ended December 31, 2015

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Gary C. Davis Bluffton, SC USA	Insurance	Director	Director Atlantic Community Bank	N/A	4.7%	N/A	N/A
Frederick Anthony Nimmer, III Bluffton, SC USA	Seed Producer	Director	Director Atlantic Community Bank	President - Nimmer Turf & Tree Farm President - Nimmer Equipment Rental Co. President - Nimmer Smart Tract, LLC Partner Caroilna Seed Farm. LLC Vice-President - Turfmasters, Inc. Vice-President - Carolina Pellet Mill, LLC Partner - Carolina Seed Farms, LLC Vice-President - Champion Fuel Pellets, LLC	3.7%	N/A	40% - Nimmer Turf & Tree Farm 50% - Nimmer Equipment Rental Co. 50% - Nimmer Smart Tract, LLC 50% Carolina Seed Farm, LLC 50% - Turfmasters, Inc. 40% - Carolina Pellet Mill, LLC 50% - Carolina Seed Farms, LLC 40% - Champion Fuel Pellets, LLC
Robyn Josselson Shirley Bluffton, SC USA	Practice Manager	Director	Director Atlantic Community Bank	Practice Manager - Southeastern Oral and Maxillofacial Surgery Center, Inc. Member - Bluffton Plantattion Group Co-owner - Sago Management, LLC	2.6%	N/A	 25% - Bluffton Plantattion Group 50% - Sago Management, LLC
Brian J. Smith Bluffton, SC USA	Dentist	Director & Chairman	Director & Chairman Atlantic Community Bank	Owner, President - Palmetto Dental Arts, PA Member - Combahee Holdings, LLC Manager/Member - Alljoy Investors, LLC Owner - Old Village Square, LLC	3.4%	N/A	100% - Palmetto Dental Arts, PA 33% - Combahee Holdings, LLC 33 % - Alljoy Investors, LLC 100 % - Old Village Square, LLC

Form FRY-6
Atlantic Bancshares, Inc.
Fiscal year ended December 31, 2015

Report Item 4: Insiders
(1), (2), (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Shares in Bank Holding Company	(4)(b) Percentage of Voting shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
				Member - All Joy Investors 2, LLC Member - BHBL LLC Member - 163 Bluffton Road, LLC Owner Sandbar Insurance Member/Owner Whale Branch MBH, LLC Member Sandbar Investors, LLC Member - Bluffton Plantation Group			50% Alljoy Investors 2, LLC 33% BHBL LLC 33% 162 Bluffton Road, LLC 100% Sandbar Insurance 100% Whale Branch MBH, LLC 100% Sandbar Investors LLC 25% - Bluffton Plantation Group
Edgar L. Woods Bluffton, SC USA	Grain Brokerage	Director & Vice Chairman	Director & Vice Chairman Atlantic Community Bank	President - Palmetto Grain Brokerage, LLC President - Performance Ag, LLC Partner - S.C. Ag Group President - Woods Holdings, LLC	24.0%	N/A	95 % - Palmetto Grain Brokerage, LLC 100% - Performance Ag, LLC 50% - S.C. Ag Group 100% - Woods Holdings, LLC
Michelle M. Pennell Bluffton, SC USA	N/A	Chief Financial Officer & EVP	Chief Financial Officer & EVP Atlantic Community Bank	Managing Member Blue Crab Investors, LLC	1.3%	N/A	95% Blue Crab Investors, LLC
Robert L. McKinney Bluffton, SC USA	N/A	Chief Executive Officer & Pres. & Director	Chief Executive Officer & Pres. Atlantic Community Bank	N/A	2.5%	N/A	N/A
Todd D. Hoke Bluffton, SC USA	N/A	Chief Credit Officer & EVP	Chief Credit Officer & EVP Atlantic Community Bank	N/A	1.6%	N/A	N/A

ATLANTIC BANCSHARES, INC.

Consolidated Financial Statements

and

Independent Auditor's Report

December 31, 2015 and 2014

ATLANTIC BANCSHARES, INC.

Table of Contents

elliott davis decosimo

Independent Auditor's Report

The Board of Directors
Atlantic Bancshares, Inc. and Subsidiary
Bluffton, South Carolina

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Atlantic Bancshares, Inc. and its subsidiary which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantic Bancshares, Inc. and its subsidiary as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
February 24, 2016

Atlantic Bancshares, Inc.

Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 1,896,614	$ 1,397,475
Interest bearing deposits with other banks	20,642,230	16,115,719
Total cash and cash equivalents	22,538,844	17,513,194
Securities available for sale	805,079	874,855
Nonmarketable equity securities	217,400	259,100
Loans receivable	59,523,062	57,476,131
Less allowance for loan losses	(610,228)	(729,393)
Loans, net	58,912,834	56,746,738
Accrued interest receivable	145,670	157,925
Premises, furniture and equipment, net	314,765	415,661
Repossessed assets and other real estate owned	859,007	751,789
Deferred tax asset, net	2,709,611	1,505,185
Other assets	461,496	232,585
Total assets	86,964,706	$ 78,457,032
Liabilities:		
Deposits:		
Noninterest bearing transaction accounts	$ 35,211,763	$ 26,658,612
Interest-bearing transaction accounts	4,454,705	3,891,185
Savings and money market	14,990,930	15,069,500
Time deposits $250,000 and over	2,842,252	3,196,401
Other time deposits	17,989,667	19,127,145
Total deposits	75,489,317	67,942,843
Advances from Federal Home Loan Bank	1,250,000	2,000,000
Accrued interest payable	137,405	82,327
Other liabilities	734,113	567,685
Total liabilities	77,610,835	70,592,855
Commitments and Contingencies - Notes 14, 17 and 22		
Shareholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized;		
Series A, 2,000 shares issued and outstanding	1,999,933	1,999,933
Series B, $1,000 stated value; 98 shares issued and outstanding	98,101	98,101
Series AAA, 151,724 shares issued and outstanding	1,458,084	1,458,084
Common stock, no par value, 10,000,000 shares authorized; 2,390,777 and 2,274,777 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively	12,485,009	12,369,009
Additional paid in capital	608,962	591,501
Accumulated other comprehensive loss	(4,182)	(10,066)
Retained deficit	(7,292,036)	(8,642,385)
Total shareholders' equity	9,353,871	7,864,177
Total liabilities and shareholders' equity	$ 86,964,706	$ 78,457,032

The accompanying notes are an integral part of the consolidated financial statements.

Atlantic Bancshares, Inc.

Consolidated Statements of Income
For the years ended December 31, 2015 and 2014

	2015	2014
Interest income:		
Loans, including fees	$ 3,052,688	$ 3,077,243
Securities available for sale	19,468	21,209
Nonmarketable equity securities	10,302	17,512
Interest bearing deposits with other banks	39,578	22,116
Total	3,122,036	3,138,080
Interest expense:		
Time deposits $250,000 and over	21,543	23,638
Other deposits	235,916	215,781
Other borrowings	25,148	57,805
Total	282,607	297,224
Net interest income	2,839,429	2,840,856
Provision for loan losses	304,000	269,000
Net interest income after provision for loan losses	2,535,429	2,571,856
Noninterest income:		
Service fees on deposit accounts	133,956	155,655
Residential mortgage origination fees	85,563	27,358
Bank card fees	155,778	149,052
Other income	128,652	131,889
Total	503,949	463,954
Noninterest expenses:		
Salaries and employee benefits	1,370,986	1,266,283
Net occupancy	332,237	333,107
Professional fees	151,910	192,187
Marketing	32,793	16,499
Furniture and equipment	50,525	51,190
Data processing and related costs	419,336	384,409
FDIC assessments	70,768	65,566
Net (recovery) cost of operation of other real estate owned	(71,522)	399,213
Other operating	312,215	316,839
Total	2,669,248	3,025,293
Income before income tax benefit	370,130	10,517
Income tax benefit	(1,169,039)	(970,658)
Net income	**$ 1,539,169**	**$ 981,175**
Net accretion of preferred stock to redemption value	-	24,744
Preferred stock dividends accrued	188,820	109,041
Net income available to common shareholders	**$ 1,350,349**	**$ 847,390**
Basic income per common share	**.59**	**$ .37**
Average common shares outstanding - basic	2,306,240	2,274,777
Diluted income per common share	**.57**	**$ .36**
Average common shares outstanding - diluted	2,366,482	2,339,015

The accompanying notes are an integral part of the consolidated financial statements.

Atlantic Bancshares, Inc.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014

	2015	2014
Net income	$ 1,539,169	$ 981,175
Other comprehensive income		
Unrealized holding gains arising during the period	8,914	36,985
Tax effect	(3,030)	(12,576)
Other comprehensive income, net of tax	5,884	24,409
Comprehensive income	$ 1,545,053	$ 1,005,584

The accompanying notes are an integral part of the consolidated financial statements.

Atlantic Bancshares, Inc.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2015 and 2014

	Common Stock		Preferred Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Income (Loss)	Equity
Balance, December 31, 2013	**2,274,777**	**$ 12,369,009**	**153,822**	**$ 3,531,374**	**$ 572,251**	**$ (9,489,775)**	**$ (34,475)**	**$ 6,948,384**
Net income	-	-	-	-	-	981,175	-	981,175
Other comprehensive income, net of taxes of $(12,576)	-	-	-	-	-	-	24,409	24,409
Net accretion/amortization of preferred stock discount premium	-	-	-	24,744	-	(24,744)	-	-
Preferred stock dividends	-	-	-	-	-	(109,041)	-	(109,041)
Stock based compensation	-	-	-	-	19,250	-	-	19,250
Balance, December 31, 2014	**2,274,777**	**12,369,009**	**153,822**	**3,556,118**	**591,501**	**(8,642,385)**	**(10,066)**	**7,864,177**
Net income	-	-	-	-	-	1,539,169	-	1,539,169
Warrant exercise	116,000	116,000	-	-	-	-	-	116,000
Other comprehensive income, net of taxes of $(3,030)	-	-	-	-	-	-	5,884	5,884
Preferred stock dividends	-	-	-	-	-	(188,820)	-	(188,820)
Stock based compensation	-	-	-	-	17,461	-	-	17,461
Balance, December 31, 2015	**2,390,777**	**$ 12,485,009**	**153,822**	**$ 3,556,118**	**$ 608,962**	**$ (7,292,036)**	**$ (4,182)**	**$ 9,353,871**

The accompanying notes are an integral part of the consolidated financial statements.

Atlantic Bancshares, Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income	$ 1,539,169	$ 981,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	304,000	269,000
(Gain) loss on sale of repossessed assets	(53,635)	231,964
Write downs (recoveries) of other real estate owned	(58,796)	93,442
Depreciation expense	117,647	114,350
Net accretion/amortization on securities available for sale	977	1,116
Stock-based compensation expense	17,461	19,250
Deferred income tax benefit	(1,207,456)	(970,658)
Decrease in interest receivable	12,256	15,134
(Increase) decrease in other assets	(228,911)	41,794
Increase in interest payable	55,078	5,403
Decrease in other liabilities	(22,392)	(11,066)
Net cash provided by operating activities	475,398	790,904
Cash flows from investing activities:		
Net (increase) decrease in loans receivable	(3,646,917)	2,222,884
Proceeds from sales of repossessed assets and other real estate owned	1,182,033	1,374,644
Purchase of premises, furniture and equipment	(16,751)	(42,080)
Purchase of nonmarketable equity securities	(91,000)	(198,000)
Repayments, maturities and calls of securities available for sale	77,713	72,015
Redemption of nonmarketable equity securities	132,700	495,100
Net cash (used) provided by investing activities	(2,362,222)	3,924,563
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	9,038,101	3,991,694
Net increase (decrease) in certificates of deposit and other time deposits	(1,491,627)	1,628,751
Net decrease in FHLB advances	(750,000)	(6,000,000)
Stock warrant exercise	116,000	-
Net cash provided (used) by financing activities	6,912,474	(379,555)
Net increase in cash and cash equivalents	5,025,650	4,335,912
Cash and cash equivalents, beginning of the year	17,513,194	13,177,282
Cash and cash equivalents, end of the year	**$ 22,538,844**	**$ 17,513,194**
Cash paid for:		
Interest	$ 227,529	$ 291,821
Income taxes	$ 56,731	$ 9,767
Supplemental disclosures of noncash activities:		
Additions to repossessed assets and other real estate owned	$ 1,176,820	$ 487,086
Change in unrealized gains on securities available for sale	$ 8,914	$ 36,985
Preferred stock dividends accrued	$ 188,820	$ 109,041
Net accretion/amortization of preferred stock discount premium	$ -	$ 24,744

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Atlantic Bancshares, Inc. (the Company) was incorporated to serve as a bank holding company for its subsidiary, Atlantic Community Bank (the Bank). Atlantic Community Bank commenced business on January 26, 2006. The principal business activity of the Bank is to provide banking services to domestic markets, principally in the Beaufort County region of South Carolina. The Bank is a state-chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation. The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions.

Management's Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, including valuation allowances for impaired loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and deferred income tax assets and liabilities. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management does use available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for losses on loans and foreclosed real estate may change materially in the near term.

Concentrations of Credit Risk - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the Beaufort County region of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. The Company has a concentration of residential and commercial real estate loans which totaled $46,589,472 at December 31, 2015, representing 79% of net loans receivable. Within this loan category, the collateral, purpose and structure of the loans vary substantially. Management continues to monitor this concentration of credit risk at this time and has considered this concentration in its evaluation of the allowance for loan losses. As of December 31, 2015, the Company identified four impaired loans totaling $321,359 related to this concentration. The Company experienced net losses related to this identified risk totaling $265,242 and $369,200 during the years ended December 31, 2015 and 2014, respectively. Management is not aware of any other concentrations of loans to classes of borrowers or industries that would be similarly affected by these economic conditions.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company's investment portfolio consists of one SBA pooled security. In the opinion of management, there is no concentration of credit risk in the investment portfolio. The Company places its deposits with correspondent accounts and sells its federal funds to the Federal Reserve Bank or high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Securities Available for Sale - All securities owned by the Company are classified as available for sale by management at December 31, 2015 and 2014. Securities available for sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in shareholders' equity net of deferred income taxes. Reductions in market value considered by management to be other than temporary are reported as a realized loss and a reduction in the cost basis of the security. The adjusted cost basis of investments available for sale is determined by specific identification and is used in computing the gain or loss upon sale. Interest income is recognized when earned.

Nonmarketable Equity Securities - Nonmarketable equity securities consist of the cost of the Company's investment in the stock of Federal Home Loan Bank of Atlanta. This stock has no quoted market value and no ready market for it exists. The Company has determined it is not practicable to estimate the fair value of these investments and, accordingly, uses cost as fair value. Investment in the Federal Home Loan Bank is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize such borrowings. At December 31, 2015 and 2014, the Company's investment in Federal Home Loan Bank stock was $217,400 and $259,100, respectively. Dividends are recognized when paid by the Federal Home Loan Bank and included as a separate component in interest income.

Loans Receivable - Loans are stated at their unpaid principal balance, net of charge-offs, adjusted for unamortized premiums and unearned discounts and deferred loan fees and costs. Interest income is computed based upon the unpaid principal balance and is recorded in the period earned.

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, recognition of interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the unpaid principal balance and accrued interest. When recognition of interest income is discontinued, interest earned but not collected is reversed.

Loans are charged off when the amount of loss is reasonably quantifiable and the loss is likely to occur. Interest payments received after a loan is placed in nonaccrual are applied as a principal reduction until such time as the loan is returned to accrual status. Generally, loans are returned to accrual status when the loan is brought current and the ultimate collectability of principal and interest is no longer in doubt. The amount of unrecognized interest income on nonaccrual loans for the years ended December 31, 2015 and 2014 was $102 and $112,285, respectively.

Impairment of a loan is measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent. A specific reserve, if deemed necessary, is set up for each impaired loan. Accrual of interest income on impaired loans is suspended when, in management's judgment, doubt exists as to the collectability of principal and interest. Loans are not considered impaired if a minimal payment delay occurs and all amounts due, including accrued interest at the contractual interest rate for the period of delay, are expected to be collected. If amounts are received on impaired or restructured loans for which the accrual of interest has been discontinued, those amounts are applied as a reduction of the principal balance. The loan is returned to accrual status when, in management's judgment, the borrower has demonstrated the ability to make periodic interest and principal payments on a timely basis.

Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using a method approximating a level yield.

Allowance for Loan Losses - The provision for loan losses charged to operating expenses reflects the amount deemed appropriate by management to establish an adequate reserve to meet the probable loan losses incurred in the current loan portfolio. Management's judgment is based on periodic and regular evaluation of individual loans, the overall risk characteristics of the various portfolio segments, and prevailing economic conditions. Loans that are determined to be uncollectible are charged against the allowance. Provisions for loan losses and recoveries on loans previously charged off are added to the allowance.

While management uses the best information available to make evaluations, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon examination.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Premises, Furniture and Equipment - Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for furniture and equipment of 3 to 10 years. Leasehold improvements are amortized over the lesser of the asset's useful life or the life of the lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the income statement when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Repossessed Assets and Other Real Estate Owned - Repossessed assets and other real estate owned includes real estate acquired through foreclosure and by deed in lieu of foreclosure. Repossessed assets and other real estate owned is initially recorded at the lower of fair value less estimated selling costs or cost. Any write-downs at the dates of transfer are charged to the allowance for loan losses. Expenses to maintain such assets, subsequent write-downs, and gains and losses on disposal are included in other expense.

Income Taxes - Amounts provided for income taxes are based on income reported for financial statement purposes. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon an audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain tax positions have been recorded.

Advertising Expense - Advertising and public relations costs are generally expensed as incurred and are included in marketing expense in the accompanying consolidated statements of income. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Expenses charged for advertising were \$13,006 and \$5,104 for the years ended December 31, 2015 and 2014, respectively.

Income Per Common Share - Basic income per common share is computed by dividing the net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares and potential common shares outstanding. Potential common share equivalents consist of stock options and warrants determined using the treasury stock method and the average market price of the common stock.

Stock-Based Compensation - Compensation expense is recognized in the consolidated statements of income under the fair value provisions of the accounting literature. The Company measures stock-based compensation expense for all share-based awards granted based on the estimated fair value of those awards at grant date. For stock options granted under the Company's stock option plan, the Company typically estimates the fair value of the awards using the Black-Scholes valuation model. The compensation costs of stock options are recognized net of any estimated forfeitures on a straight-line basis over the employee requisite service period. Forfeiture rates are estimated at grant date. See Note 10 of the Notes to the Consolidated Financial Statements for further discussion of stock-based compensation.

The Company's stock option plan provides for stock options to be granted primarily to directors, officers, and key employees. Options granted under the stock option plan may be incentive stock options or non-incentive stock options. Stock option awards are generally granted with an exercise price equal to, or in excess of, the market price of the Company's shares at the date of grant. Options vest ratably over a two to five-year period and expire after ten years from the date of grant. Stock option awards provide for accelerated vesting if there is a change in control, as defined in the stock option plan. The remaining shares of stock reserved under the option plan at December 31, 2015 amounted to approximately 357,084 shares.

The Company intends to issue authorized but previously unissued shares to satisfy option exercises.

Comprehensive Income - Accounting principles generally require that recognized income, expense, gains, and losses be recorded in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. In addition, these items are reported separately in the consolidated statements of comprehensive income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Cash and Cash Equivalents - For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, interest bearing deposits with other banks and federal funds sold. Generally, federal funds are sold for one day periods.

Off-Balance-Sheet Financial Instruments - In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Recently Issued Accounting Pronouncements - The following is a summary of recent authoritative pronouncements that may affect accounting, reporting, and disclosure of financial information by the Company:

In January 2014, the Financial Accounting Standards Board (FASB) amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned (OREO). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments were effective for the Company for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. The Company applied the amendments prospectively. These amendments did not have a material effect on the Company's financial statements.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years beginning after December 15, 2016, and interim periods beginning after December 15, 2017, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2015, the FASB issued amendments to clarify the Accounting Standards Codification (ASC), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers.* As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company will apply the guidance using a full retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and Uncertainties - In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Reclassifications - Certain captions and amounts in the 2014 financial statements were reclassified to conform with the 2015 presentation, with no effect on net income or equity.

NOTE 2 - CASH AND DUE FROM BANKS

At December 31, 2015 and 2014, the Company was not required to maintain cash balances with its correspondent banks to cover cash letter transactions.

NOTE 3 - SECURITIES AVAILABLE FOR SALE

The amortized costs and fair value of investment securities available for sale are as follows as of December 31:

	December 31, 2015			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
SBA asset-backed security	$ 811,416	$ -	$ 6,337	$ 805,079
Total investment securities	**$ 811,416**	**$ -**	**$ 6 337**	**$ 805,079**

	December 31, 2014			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
SBA asset-backed security	$ 890,106	$ -	$ 15,251	$ 874,855
Total investment securities	**$ 890,106**	**$ -**	**$ 15,251**	**$ 874,855**

NOTE 3 - SECURITIES AVAILABLE FOR SALE – (continued)

The amortized costs and fair values of investment securities available for sale at December 31, 2015 and 2014, by contractual maturity, are shown below. The SBA asset-backed security is included in the maturity schedule below. The maturity related to this SBA asset-backed security has been allocated based on its scheduled repayment terms. Its expected maturity may differ from its contractual maturity because the issuer has the right to prepay the obligations with or without call or prepayment penalties.

	2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after five through ten years	$ 811,416	$ 805,079	$ 890,106	$ 874,855
Total investment securities	**$ 811,416**	**$ 805,079**	**$ 890,106**	**$ 874,855**

The Company sold no securities in 2015 or 2014. Accordingly, no gains or losses were realized in 2015 or 2014. No securities were specifically pledged as collateral for various lines of credit and advance capacity with correspondent banks as of December 31, 2015 or 2014. In addition, no securities were pledged to secure public deposits at December 31, 2015 and 2014.

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous loss position, at December 31, 2015 and 2014.

	December 31, 2015					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
SBA asset-backed security	$ 805,079	$ 6,337	$ -	$ -	$ 805,079	$ 6,337

	December 31, 2014					
	Less than twelve months		Twelve months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
SBA asset-backed security	$ -	$ -	$ 874,855	$ 15,251	$ 874,855	$ 15,251

Securities classified as available-for-sale are recorded at fair market value. At December 31, 2015 and 2014, the Company had one individual security in an unrealized loss position. The Company does not intend to sell this security and it is more likely than not that the Company will not be required to sell this security before recovery of its amortized cost. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, these losses are not considered other-than-temporary.

NOTE 4 - LOANS RECEIVABLE

Loans receivable are summarized as follows:

	December 31,	
	2015	2014
Construction and land development	$ 8,568,190	$ 7,818,085
Residential real estate	26,237,319	27,695,818
Commercial real estate	20,352,153	17,753,191
Commercial other	2,541,075	2,949,590
Consumer	748,621	464,598
Other	1,075,704	794,849
	59,523,062	57,476,131
Less:		
Allowance for loan losses	610,228	729,393
Total loans receivable, net	**$ 58,912,834**	**$ 56,746,738**

NOTE 4 - LOANS RECEIVABLE - (continued)

Loan balances disclosed throughout the remaining footnote tables are net of deferred fees.

The following is an analysis of the allowance for loan losses by class of loans for the year ended December 31, 2015:

(Dollars in thousands)	Construction and Land Development	Residential Real Estate	Commercial Real Estate	Commercial Other	Consumer	Other	Total
Allowance for loan losses:							
Beginning balance	$ 182	$ 440	$ 64	$ 29	$ 14	$ -	$ 729
Charge-offs	(210)	(290)	-	-	-	(6)	(506)
Recoveries	51	3	1	21	6	1	83
Provisions	157	206	(43)	(30)	(9)	23	304
Ending balance	$ 180	$ 359	$ 22	$ 20	$ 11	$ 18	$ 610
Ending balances:							
Individually evaluated for impairment	$ 18	$ 14	$ 1	$ 17	$ -	$ -	$ 50
Collectively evaluated for impairment	$ 162	$ 345	$ 21	$ 3	$ 11	$ 18	$ 560
Loans receivable:							
Ending balance - total	$ 8,568	$ 26,237	$ 20,352	$ 2,541	$ 749	$ 1,076	$ 59,523
Ending balances							
Individually evaluated for impairment	$ 311	$ 133	$ 189	$ 153	$ 66	$ -	$ 852
Collectively evaluated for impairment	$ 8,257	$ 26,104	$ 20,163	$ 2,388	$ 683	$ 1,076	$ 58,671

The following is an analysis of the allowance for loan losses by class of loans for the year ended December 31, 2014:

(Dollars in thousands)	Construction and Land Development	Residential Real Estate	Commercial Real Estate	Commercial Other	Consumer	Other	Total
Allowance for loan losses:							
Beginning balance	$ 673	$ 312	$ 64	$ 64	$ 18	$ 4	$ 1,135
Charge-offs	(256)	(375)	-	(81)	(11)	-	(723)
Recoveries	42	5	-	1	-	-	48
Provisions	(277)	498	-	45	7	(4)	269
Ending balance	$ 182	$ 440	$ 64	$ 29	$ 14	$ -	$ 729
Ending balances:							
Individually evaluated for impairment	$ 36	$ 64	$ 4	$ 24	$ -	$ -	$ 128
Collectively evaluated for impairment	$ 146	$ 376	$ 60	$ 5	$ 14	$ -	$ 601
Loans receivable:							
Ending balance - total	$ 7,818	$ 27,696	$ 17,753	$ 2,949	$ 465	$ 795	$ 57,476
Ending balances:							
Individually evaluated for impairment	$ 926	$ 1,718	$ 194	$ 202	$ 105	$ -	$ 3,145
Collectively evaluated for impairment	$ 6,892	$ 25,978	$ 17,559	$ 2,747	$ 360	$ 795	$ 54,331

NOTE 4 - LOANS RECEIVABLE - (continued)

The following summarizes the Company's impaired loans as of December 31, 2015:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Residential real estate	27	189	-	125	-
Commercial real estate	148	148	-	148	9
Commercial other	-	-	-	-	-
Consumer	66	66	-	85	5
Other	-	-	-	-	-
	$ 241	$ 403	$ -	$ 358	$ 14
With an allowance recorded:					
Construction and land development	$ 311	311	18	286	13
Residential real estate	106	106	14	109	3
Commercial real estate	41	41	1	43	2
Commercial other	153	238	17	171	3
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 611	$ 696	$ 50	$ 609	$ 21
Total:					
Construction and land development	$ 311	$ 311	$ 18	$ 286	$ 13
Residential real estate	133	295	14	234	3
Commercial real estate	189	189	1	191	11
Commercial other	153	238	17	171	3
Consumer	66	66	-	85	5
Other	-	-	-	-	-
	$ 852	$ 1,099	$ 50	$ 967	$ 35

The following summarizes the Company's impaired loans as of December 31, 2014:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Construction and land development	$ -	$ -	$ -	$ -	$ -
Residential real estate	1,263	1,596	-	1,088	22
Commercial real estate	-	-	-	-	-
Commercial other	13	13	-	15	1
Consumer	105	105	-	128	3
Other	-	-	-	-	-
	$ 1,381	$ 1,714	$ -	$ 1,231	$ 26
With an allowance recorded:					
Construction and land development	$ 926	$ 971	$ 36	$ 946	$ 29
Residential real estate	455	455	64	481	13
Commercial real estate	194	194	4	188	11
Commercial other	189	275	24	73	12
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 1,764	$ 1,895	$ 128	$ 1,688	$ 65
Total:					
Construction and land development	$ 926	$ 971	$ 36	$ 946	$ 29
Residential real estate	1,718	2,051	64	1,569	35
Commercial real estate	194	194	4	188	11
Commercial other	202	288	24	88	13
Consumer	105	105	-	128	3
Other	-	-	-	-	-
	$ 3,145	$ 3,609	$ 128	$ 2,919	$ 91

NOTE 4 - LOANS RECEIVABLE - (continued)

The following is a summary of past due loans as of December 31, 2015:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment> 90 Days and Accruing
Construction and land development	$ -	$ -	$ -	$ -	$ 8,568	$ 8,568	$ -
Residential real estate	-	-	27	27	26,210	26,237	-
Commercial real estate	-	-	-	-	20,352	20,352	-
Commercial other	6	-	-	6	2,535	2,541	-
Consumer	-	-	-	-	749	749	-
Other	-	-	-	-	1,076	1,076	-
	$ 6	$ -	$ 27	$ 33	$ 59,490	$ 59,523	$ -

The following is a summary of past due loans as of December 31, 2014:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment> 90 Days and Accruing
Construction and land development	$ -	$ -	$ -	$ -	$ 7,818	$ 7,818	$ -
Residential real estate	119	-	1,158	1,277	26,419	27,696	-
Commercial real estate	-	-	-	-	17,753	17,753	-
Commercial other	-	13	-	13	2,936	2,949	-
Consumer	-	-	-	-	465	465	-
Other	-	-	-	-	795	795	-
	$ 119	$ 13	$ 1,158	$ 1,290	$ 56,186	$ 57,476	$ -

The following is a summary of nonaccrual loans as of December 31, 2015 and 2014:

(Dollars in thousands)	2015	2014
Construction and land development	$ -	$ -
Residential real estate	27	1,158
Commercial real estate	-	-
Commercial other	-	-
Consumer	12	-
Other	-	-
	$ 39	$ 1,158

Credit Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

NOTE 4 - LOANS RECEIVABLE - (continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

The following is a summary of the Company's loans as of December 31, 2015:

(Dollars in thousands)	Construction and Land Development	Residential Real Estate	Commercial Real Estate	Commercial Other	Consumer	Other	Total
Pass	$ 7,279	$ 23,794	$ 19,222	$ 2,170	$ 607	$ 1,076	$ 54,148
Special mention	1,031	2,125	1,089	218	142	-	4,605
Substandard	258	318	41	153	-	-	770
Doubtful	-	-	-	-	-	-	-
	$ 8,568	$ 26,237	$ 20,352	$ 2,541	$ 749	$ 1,076	$ 59,523

The following is a summary of the Company's loans as of December 31, 2014:

(Dollars in thousands)	Construction and Land Development	Residential Real Estate	Commercial Real Estate	Commercial Other	Consumer	Other	Total
Pass	$ 5,275	$ 23,342	$ 16,000	$ 2,586	$ 320	$ 795	$ 48,318
Special mention	1,627	2,558	1,708	173	145	-	6,211
Substandard	916	1,796	45	190	-	-	2,947
Doubtful	-	-	-	-	-	-	-
	$ 7,818	$ 27,696	$ 17,753	$ 2,949	$ 465	$ 795	$ 57,476

Troubled Debt Restructurings

The following table summarizes the carrying balance of troubled debt restructurings ("TDRs") as of December 31, 2015 and 2014:

	2015	2014
Construction and land development	$ 311,664	$ 926,031
Residential real estate	132,711	454,809
Commercial real estate	188,648	193,995
Commercial other	152,697	202,517
Consumer	53,975	104,949
Total TDRs	$ 839,695	$ 1,882,301

Loans classified as TDRs may be removed from this status for disclosure purposes after a specified period of time if the restructured agreement specifies an interest rate equal to or greater than the rate that the lender was willing to accept at the time of the restructuring for a new loan with comparable risk, and the loan is performing in accordance with the terms specified by the restructured agreement.

The following is an analysis of Troubled Debt Restructurings (TDRs) during 2015:

	For the year ended December 31, 2015		
(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Construction and land development	1	$ 160	$ 160
Residential real estate	-	-	-
Commercial real estate	-	-	-
Commercial other	-	-	-
Consumer	-	-	-
Other	-	-	-

NOTE 4 - LOANS RECEIVABLE - (continued)

During the year ended December 31, 2015, we modified one loan that was considered to be a troubled debt restructuring by lowering the interest rate.

During the year ended December 31, 2015, three loans that had previously been restructured subsequently defaulted during the year.

Troubled Debt Restructurings That Subsequently Defaulted During the Year 2015	**Number of Contracts**	**Recorded Investment**
Construction and land development	2	$ 365
Residential real estate	1	55
Commercial real estate	-	-
Commercial other	-	-
Consumer	-	-
Other	-	-
	3	$ 420

The following is an analysis of Troubled Debt Restructurings (TDRs) during 2014:

	For the year ended December 31, 2014		
(Dollars in thousands)	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings			
Construction and land development	-	$ -	$ -
Residential real estate	-	-	-
Commercial real estate	-	-	-
Commercial other	1	269	269
Consumer	-	-	-
Other	-	-	-

During the year ended December 31, 2014, we modified one loan that was considered to be a troubled debt restructuring by lowering the interest rate.

During the year ended December 31, 2014, three loans that had previously been restructured subsequently defaulted during the year.

Troubled Debt Restructurings That Subsequently Defaulted During the Year 2014	**Number of Contracts**	**Recorded Investment**
Construction and land development	1	$ 190
Residential real estate	-	-
Commercial real estate	-	-
Commercial other	2	20
Consumer	-	-
Other	-	-
	3	$ 210

NOTE 5 - PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment are stated at cost less accumulated depreciation. Components of premises, furniture and equipment included in the consolidated balance sheets are as follows at December 31:

	2015	2014
Leasehold improvements	$ 924,255	$ 917,747
Furniture and equipment	692,778	719,672
Accumulated depreciation	(1,302,268)	(1,221,758)
Total premises, furniture and equipment, net	**$ 314,765**	**$ 415,661**

Depreciation expense for the years ended December 31, 2015 and 2014 was $117,647 and $114,350, respectively.

NOTE 6 - REPOSSESSED ASSETS AND OTHER REAL ESTATE OWNED

The following summarizes the activity in the repossessed assets and other real estate owned for the years ended December 31:

	2015	2014
Balance, beginning of the year	$ 751,789	$ 1,964,753
Additions	1,176,820	487,086
Sales	(1,128,398)	(1,606,608)
Allowance	58,796	(93,442)
Balance, end of year	**$ 859,007**	**$ 751,789**

NOTE 7 - DEPOSITS

At December 31, 2015 the scheduled maturities of certificates of deposit are as follows:

2016	$ 17,381,514
2017	2,731,243
2018	25,429
2019	67,837
2020	625,896
	$ 20,831,919

Included in the maturity schedule are thirty-three Deposit Account Registry Service ("CDARS") reciprocal deposits totaling $5,064,549. These deposits have a remaining maturity ranging from 1 to 12 months and a weighted average rate of .55%. There are also six CDARS One Way Buy deposits totaling $920,513. These deposits have a remaining maturity ranging from 5 to 7 months and a weighted average rate of .59%.

At December 31, 2015 and 2014, the Bank had deposits with a deficit overdraft balance of $5,442 and $6,091, respectively.

At December 31, 2015, one member of the Board of Directors, and his related entities, exceeded 5% of the Bank's total deposits.

NOTE 8 - ADVANCES FROM THE FEDERAL HOME LOAN BANK

As of December 31, 2015 and 2014, the Bank had advances from the Federal Home Loan Bank of Atlanta in the amount of $1,250,000 and $2,000,000, respectively. Federal Home Loan Bank advances are collateralized by pledged Federal Home Loan Bank stock, and certain commercial and residential loans, including home equity lines of credit. Our investment portfolio may also be pledged as collateral for Federal Home Loan Bank advances. As of December 31, 2015 and 2014, there were no investments pledged as collateral for outstanding Federal Home Loan Bank advances. The advances have fixed interest rates, bullet maturities, pay interest monthly and do not have conversion options. All Federal Home Loan Bank advances are subject to prepayment penalties.

Federal Home Loan Bank advances as of December 31:

Maturity	Rate	2015	2014
03/18/2015	1.9200%	$ -	$ 750,000
07/25/2016	.7900%	500,000	500,000
07/25/2016	.7900%	750,000	750,000
Total advances from Federal Home Loan Bank		$ 1,250,000	$ 2,000,000

NOTE 9 - ADVANCES FROM THE FEDERAL RESERVE BANK

There were no Federal Reserve advances outstanding as of December 31, 2015 or 2014. However, the Bank has the ability to borrow from the Federal Reserve Bank and the rate on advances from the Federal Reserve Bank Discount Window is the Federal Reserve Discount Window rate. Advances from the Federal Reserve Bank Discount Window are not subject to prepayment penalties. The Bank's discount window borrowing capacity, based upon lendable collateral, totaled $1,619,342 and $1,713,381 as of December 31, 2015 and December 31, 2014, respectively. As of December 31, 2015 and 2014, the Bank's lendable collateral included certain lot loans only.

NOTE 10 - STOCK COMPENSATION PLAN

Under the terms of the original employment agreements with the Company's former Chief Executive Officer ("CEO"), Chief Credit Officer ("CCO"), former Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"), stock options were granted to each as part of their compensation and benefits package. Under these agreements, the CEO was granted options to purchase common stock equal to 2% of the shares sold in the initial offering or 25,031 options. The CCO and the COO were granted options to purchase common stock equal to 1% of the shares sold in the initial offering or 12,516 options to each, and the CFO was granted 10,000 stock options. These options vested over a five year period. The options have an exercise price of $10 per share and terminate ten years after the date of grant.

The Company has also granted a total of 49,250 stock options to its employees at various dates. These options vest over a five year period, which is measured from the date at which the stock option is granted.

On May 31, 2013, the Company granted 66,500 stock options per the terms of the employment agreement with Company's new Chief Executive Officer. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 53.70%, risk free interest rate of 1.76% and an expected life of six years. The options vest over a two year period. The options have an exercise price of $1.25 per share and terminate ten years after the date of grant.

On November 19, 2014, the CFO and the CCO were each granted 10,000 stock options by the Company. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 56.95%, risk free interest rate of 1.83% and an expected life of six years. The options vest over a two year period. The options have an exercise price of $1.30 per share and terminate ten years after the date of grant.

As of December 31, 2015 there was $6,323 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plan. That cost is expected to be recognized over a weighted average period of .92 years. The compensation cost recognized in income totaled $17,461 and $19,250 during the years ended December 31, 2015 and 2014, respectively.

NOTE 10 - STOCK COMPENSATION PLAN - (continued)

A summary of the status of the Company's stock options as of December 31, and changes during the year are presented below:

	2015		2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	123,516	$ 3.80	103,516	$ 4.28
Granted	-		20,000	1.30
Exercised	-		-	
Forfeited	-		-	
Expired	-		-	
Outstanding at December 31,	**123,516**	**$ 3.80**	**123,516**	**$ 3.80**

At December 31, 2015 and 2014, 114,349 and 87,724 of these options were exercisable, respectively.

The following table summarizes information about the stock options outstanding under the Company's stock option plan at December 31, 2015:

	Outstanding	Exercisable
Number of options	123,516	114,349
Weighted average remaining life	5.80	5.55
Weighted average exercise price	$3.80	$4.00
High exercise price	$11.00	$11.00
Low exercise price	$1.25	$1.25
Aggregate intrinsic value	$0.00	$0.00

	Options	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2015	35,792	$ .67
Granted	-	
Vested	(26,625)	.66
Forfeited	-	-
Nonvested at December 31, 2015	**9,167**	**$ .68**

NOTE 11 - STOCK WARRANTS

The organizers of the Company received stock warrants giving them the right to purchase one share of common stock for every share they purchased in the initial offering of the Company's common stock up to 10,000 shares at a price of $10 per share. A total of 80,000 warrants were granted in 2006. The warrants vested over a five year period. All unexercised organizer warrants expire on the tenth anniversary of the opening date of the Bank, subject to earlier termination in certain circumstances pursuant to individual stock warrant agreements.

On December 17, 2012, the Company issued 116,000 warrants at an exercise price of $1 per share pursuant to a Subscription and Suitability Agreement dated June 15, 2012. The warrants vested immediately and have a term of five years.

In 2015, there were no warrants granted or forfeited. For the year ended December 31, 2015, 116,000 warrants at an exercise price of $1 per share were exercised.

NOTE 11 - STOCK WARRANTS – (continued)

A summary of the status of the Company's stock warrants as of December 31, and changes during the year, are presented below:

	2015		2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	166,000	$ 3.71	166,000	$ 3.71
Granted	-		-	
Exercised	116,000	1.00	-	
Forfeited	-		-	
Expired	-		-	
Outstanding at December 31,	**50,000**	**$ 10.00**	**166,000**	**$ 3.71**

At December 31, 2015 and 2014, 50,000 and 166,000 warrants were exercisable, respectively.

NOTE 12 - INCOME TAXES

Income tax benefit for the years ended December 31, is summarized as follows:

	2015	2014
Current expense		
Federal	$ -	$ -
State	36,766	29,342
	36,766	29,342
Deferred tax benefit	(1,205,805)	(1,000,000)
Income tax benefit	(1,169,039)	$ (970,658)

The gross amounts of deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2015	2014
Deferred tax assets:		
Unrealized loss on securities available for sale	$ 2,155	$ 5,185
Net operating loss carryforward	2,875,691	2,963,546
Organizational and start-up costs	82,728	99,301
Nonaccrual interest	35	38,177
Other	132,005	126,740
New jobs tax credit carryforwards	97,114	121,309
Gross deferred tax assets	3,189,728	3,354,258
Valuation allowance	(300,134)	(1,661,280)
Total deferred tax assets	2,889,594	1,692,978
Deferred tax liabilities:		
Allowance for loan losses	136,484	163,264
Net capitalized loan costs and fees	11,965	5,606
Prepaid expenses	33,185	18,923
Total deferred tax liabilities	181,634	187,793
Net deferred tax assets	**$ 2,709,960**	**$ 1,505,185**

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. Management has determined that it is more likely than not that a portion of the deferred tax asset related to net operating loss carryforwards as of December 31, 2015 will not be realized, and, accordingly, has established a partial valuation allowance. The valuation allowance decreased by $1,361,146 in 2015 and $1,013,812 in 2014.

NOTE 12 - INCOME TAXES - (continued)

The Company has a net operating loss for Federal income tax purposes of $8,380,130 as of December 31, 2015. This net operating loss begins to expire in the year 2026. The Company has state net operating losses of $801,436 as of December 31, 2015. These net operating losses begin to expire in the year 2026.

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 34% for 2015 and 2014 to income before income taxes follows:

	2015	2014
Tax expense at a statutory rate	$ 125,844	$ 3,576
Differences		
Stock-based compensation	9,426	6,545
Other	56,837	33,033
Valuation allowance	(1,361,146)	(1,013,812)
Income tax benefit	$ (1,169,039)	$ (970,658)

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. The Company's policy is to classify any interest or penalties recognized as interest expense or noninterest expense, respectively. Years ended December 31, 2012 through December 31, 2015 remain open for audit for all major jurisdictions.

NOTE 13 - BENEFIT PLAN

Effective January 1, 2014, the Company reinstated its matching contribution for a defined contribution plan established during fiscal 2007. The plan covers substantially all employees. The Company contributes a matching contribution of 100% of employee salary deferral contributions up to 3% of salary, plus 50% of employee salary deferral contributions from 3% to 5% of salary for the plan year.

Matching contribution expense was $39,857 and $33,873 for the years ended December 31, 2015 and 2014, respectively.

NOTE 14 - LEASES

The Company has entered into various lease agreements which are more fully described below.

On January 1, 2007, the Company opened a loan production office on Hilton Head Island, South Carolina. This location was converted to a full-service branch on October 26, 2007. The leased facility was sold in August 2006 to a limited liability corporation owned primarily by directors of the Company. The Company entered into a new lease agreement beginning August 1, 2006 for a minimum of ten years. The lease agreement provides for two ten year renewal terms. Monthly rental expense for the first two years of the lease was $2,000. At the end of the second year of the initial term, and at the end of each subsequent two year period and of any renewal term of this lease, the base rent may be adjusted according to the provisions in the lease. There were no adjustments to monthly rental expense for the year ended December 31, 2015. There are no plans to renew this lease upon expiration.

The Bank entered into a lease agreement for its corporate headquarters on February 5, 2008 for a minimum term of fifteen years, ending on December 31, 2022. The lease agreement provides for two five year renewal terms. Monthly rental expense for the first year of the lease was $9,572. At the end of the first year of the initial term, and at the end of each subsequent year, the base rent will be adjusted according to the provisions in the lease. A Commercial Lease Addendum was signed on March 25, 2008 which adjusted the monthly rental expense for the first year of the lease to $8,993. The Addendum also adjusted the monthly base rent due after the first year for the duration of the lease.

On December 17, 2015, the Bank entered into a lease agreement to relocate its Hilton Head Island office to commence on February 1, 2016 for a term of five years. The lease agreement provides for two five year renewal terms. Monthly rental expense for the first two years is $2,860. At the end of each subsequent year, the base rent will be adjusted according to the provisions in the lease.

Rental expense for the year ended December 31, 2015 and December 31, 2014 totaled $189,623 and $188,369, respectively.

NOTE 14 – LEASES – (continued)

Under these assumptions, minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year for each of the next five years in the aggregate are:

2016	$ 185,012
2017	$ 175,118
2018	$ 181,958
2019	$ 189,170
2020	$ 193,886

NOTE 15 - SHAREHOLDERS' EQUITY

Preferred Stock. In December 2009, the Company issued to the United States Department of the Treasury ("Treasury") 2,000 shares of its newly designated Series A Preferred shares, liquidation preference $1,000 per share, and a warrant to purchase approximately 98 shares of the Company's newly designated Series B Preferred shares, liquidation preference $1,000 per share, for $2,000,000 pursuant to the Capital Purchase Program ("Capital Purchase Program"), implemented as part of the Emergency Economic Stabilization Act's ("EESA") Troubled Asset Relief Program ("TARP"). Treasury immediately exercised the warrant for nominal consideration, resulting in the Company issuing to the Treasury the 98 shares of the Series B Preferred shares underlying the warrant.

On January 31, 2014, the US Department of Treasury auctioned 2,000 Series A and 98 Series B Preferred shares in the amount of $2,300,000 and $130,830, respectively. The sale of the Series A and Series B Preferred Stock settled on February 10, 2014 to two private investors.

The Series A and Series B Preferred shares are senior to shares of our common stock with respect to dividends and liquidation preference. Under the terms of the Series A Preferred shares, the Company is obligated to pay a 5% per annum cumulative dividend on the liquidation preference of the preferred shares until December 29, 2014 and thereafter at a rate of 9% per annum. The terms of the Series B Preferred shares are identical to those for the Series A Preferred shares except that (i) the dividend rate on the Series B is 9% per annum and (ii) the Series B Preferred shares may not be redeemed unless all of the Series A Preferred shares have been redeemed.

As long as shares of the Series A and Series B Preferred shares remain outstanding, the Company may not pay dividends to its common shareholders unless all accrued and unpaid dividends on the preferred shares have been paid in full. In addition, the Company may not repurchase or redeem, without the prior approval of the Series A and Series B Preferred holders, any shares of its common stock or other securities that are junior to the Series A and Series B Preferred shares.

The terms of the Series A and Series B Preferred also provide if dividends on such preferred shares are not paid in full for six dividend periods, whether or not consecutive, the holders of the Series A and Series B Preferred will have the right to elect two directors to our Board of Directors until all unpaid cumulative dividends are paid in full. The holders of the Series A and Series B Preferred shares have not exercised such right and have not indicated any intent to exercise such right. These special voting rights associated with the Series A and Series B Preferred shares may result in the shares being considered "voting securities" for purposes of the Bank Holding Company Act and the Change in Bank Control Act. Accordingly, the holders may be required to seek regulatory approval prior to exercising such rights.

The Company deferred quarterly dividends beginning the first quarter of 2011 through the first quarter of 2016. However, the Company has continued to accrue these dividends and as of December 31, 2015 totaled $610,720. They are included in other liabilities on the balance sheet.

On November 20, 2015, the Company initiated a stock offering in the form of a Confidential Offering Circular. The Company is offering up to 1,650,000 shares of its common stock at a purchase price of $2.00 per share for an aggregate offering amount of up to $3.3 million. The Company may elect to increase by 15% the number of shares offered. The Offering is set to expire on January 31, 2016, but may be terminated or extended at the discretion of the Company up through April 30, 2016. The Company has elected to extend the Offering up through March 31, 2016 and may elect to extend to April 30, 2016. The Company intends to use the net proceeds from the Offering to redeem the Series A and Series B Preferred shares and to pay all accrued dividends and interest. Any remaining proceeds from the Offering will be used for general corporate purposes and to provide additional capital to support the business operations of the Company and the Bank.

NOTE 15 - SHAREHOLDERS' EQUITY – (continued)

As of December 31, 2015, the Company had received no funds in escrow as a result of the Offering. However, as of February 24, 2016, the date the release of the financials, the Company had $3,448,555 held in escrow in a third party institution. The Company expects to break escrow in the first quarter of 2016.

NOTE 16 - RELATED PARTY TRANSACTIONS

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability. As of December 31, 2015 and 2014, the Company had related party loans totaling $1,091,126 and $1,203,320, respectively.

Deposits by directors, including their affiliates and executive officers, at December 31, 2015 and 2014 were $24,940,125 and $18,607,749, respectively.

One of the leases described in Note 14 is with a limited liability corporation that is owned primarily by the directors of the Company. The expense associated with this lease totaled $38,095 for the years ended December 31, 2015 and 2014.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Company.

The Bank has entered into an agreement for core data processing services through January 26, 2019. There are fixed and variable fees related to various software, maintenance support and other related services.

NOTE 18 – INCOME PER COMMON SHARE

Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted income per common share is computed by dividing net income by the weighted-average number of common shares outstanding and dilutive common share equivalents using the treasury stock method.

	2015	2014
Basic income per share computation:		
Net income to common shareholders	$ 1,350,349	$ 847,390
Average common shares outstanding - basic	2,306,240	2,274,777
Basic income per common share	$ 0.59	$ 0.37
Diluted income per share computation:		
Net income to common shareholders	$ 1,350,349	$ 847,390
Average common shares outstanding - basic	2,306,240	2,274,777
Incremental shares from assumed conversions:		
Stock options	60,242	64,238
Average common shares outstanding - diluted	2,366,482	2,339,015
Diluted income per common share	$ 0.57	$ 0.36

NOTE 19 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Bank is also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of CET1, but the buffer will apply to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer will be phased in incrementally over time, beginning January 1, 2016 and becoming fully effective on January 1, 2019, and will ultimately consist of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

As of the most recent regulatory examination, the Bank was deemed well-capitalized under the regulatory framework for prompt corrective action. To be categorized well capitalized, the Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Bank's categories.

NOTE 19 - REGULATORY MATTERS – (continued)

The following table summarizes the capital ratios and the regulatory minimum requirements of the Bank December 31, 2015 and 2014.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount Ratio	Ratio	Amount		Ratio	Amount
December 31, 2015						
Total capital (to risk-weighted assets)	$ 7,839	13.96%	$ 4,494	8.00%	$ 5,617	10.00%
Tier 1 capital (to risk-weighted assets)	7,229	12.87%	3,370	6.00%	4,494	8.00%
Tier 1 capital (to average assets)	7,229	9.04%	3,198	4.00%	3,998	5.00%
Common equity tier 1 capital (to risk-weighted assets)	7,229	12.87%	2,528	4.50%	3,651	6.50%
December 31, 2014						
Total capital (to risk-weighted assets)	$ 7,438	13.65%	$ 4,360	8.00%	$ 5,451	10.00%
Tier 1 capital (to risk-weighted assets)	6,756	12.40%	2,180	4.00%	3,270	6.00%
Tier 1 capital (to average assets)	6,756	8.92%	3,031	4.00%	3,789	5.00%
Common equity tier 1 capital (to risk-weighted assets)	N/A	N/A	N/A	N/A	N/A	N/A

NOTE 20 - LINES OF CREDIT

As of December 31, 2015 and 2014 the Bank had four unsecured lines of credit to purchase federal funds from unrelated banks totaling $5,750,000. As of December 31, 2015 and 2014, there was no balance outstanding on the lines of credit. The lenders have reserved the right to withdraw the unsecured lines at their option. These lines of credit are available under various terms and are available for general corporate purposes.

At December 31, 2015 and 2014, the Bank had remaining available credit from the Federal Home Loan Bank totaling $13,775,328 and $15,463,234, respectively, based upon existing pledged loan collateral. At December 31, 2015 and 2014, an additional $18,817,500 and $17,370,000, respectively, of credit was also available to the Bank upon the receipt of additional collateral pledged to the Federal Home Loan Bank.

As of December 31, 2015 and 2014, the Bank had $1,619,342 and $1,713,381, respectively, of total lendable collateral available for short-term advances at the Discount Window. Lot loans totaling $2,610,405 and $2,733,868 were pledged to Federal Reserve Bank of Richmond which produced the lendable collateral value as of December 31, 2015 and 2014. The typical maximum maturity for advances from the Federal Reserve Bank is overnight. The rate on the advances from the Discount Window is the Federal Reserve Discount Window rate. Advances from the Federal Reserve Discount Window are not subject to prepayment penalties. As of December 31, 2015 and 2014, there were no advances outstanding from the Federal Reserve Bank of Richmond.

NOTE 21 - RESTRICTIONS ON SUBSIDIARY DIVIDENDS, LOANS, OR ADVANCES

The ability of the Company to pay cash dividends to shareholders is dependent upon receiving cash in the form of dividends from its banking subsidiary. However, certain restrictions exist regarding the ability of the subsidiary to transfer funds in the form of cash dividends to the Company. State chartered banks are authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the South Carolina Board of Financial Institutions (SCBFI) provided that the Bank received a composite rating of one or two at the last examination conducted by the State or Federal regulatory authority. Otherwise, the Bank must file an income and expense report and obtain the specific approval of the SCBFI.

NOTE 22 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Collateral held for commitments to extend credit and letters of credit varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

The following table summarizes the Bank's off-balance-sheet financial instruments whose contract amounts represent credit risk at December 31:

	2015	2014
Commitments to extend credit	$ 7,089,890	$ 4,589,727
Commercial letters of credit	125,000	125,000
	$ 7,214,890	$ 4,714,727

NOTE 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles provide a framework for measuring and disclosing fair value. Required disclosures include the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition and whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models and similar techniques. Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

NOTE 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (continued)

Securities Available for Sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities may include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities may include mortgage backed securities issued by government sponsored entities, other asset-backed securities, municipal bonds and corporate debt securities. Securities classified as Level 3 may include asset-backed securities in less liquid markets.

Loans

The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures its impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. For the years ended December 31, 2015 and 2014, respectively, impaired loans were valued using discounted cash flow analysis or the fair value of collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, discounted cash flow analysis or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Repossessed Assets and Other Real Estate Owned

Repossessed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2015			
Securities available for sale	**Total**	**Level 1**	**Level 2**	**Level 3**
SBA asset-backed securities	$ 805,079		$ 805,079	
Total assets	**$ 805,079**		**$ 805,079**	

	December 31, 2014			
Securities available for sale	**Total**	**Level 1**	**Level 2**	**Level 3**
SBA asset-backed securities	$ 874,855	$ -	$ 874,855	$ -
Total assets	**$ 874,855**	**$ -**	**$ 874,855**	**$ -**

There were no liabilities measured at fair value on a recurring basis at December 31, 2015 and 2014, respectively.

NOTE 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (continued)

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014, respectively, aggregated by level in the fair value hierarchy within which those measurements fall.

	December 31, 2015			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Repossessed assets and other real estate owned	$ 859	$ -	$ 859	$ -
Impaired loans:				
Construction and development	293	-	293	-
Residential real estate	119	-	119	-
Commercial real estate	188	-	188	-
Commercial other	136	-	136	-
Other	66	-	66	-
Total assets	$ 1,661	$ -	$ 1,661	$ -

	December 31, 2014			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Repossessed assets and other real estate owned	$ 752	$ -	$ 752	$ -
Impaired loans:				
Construction and development	890	-	890	-
Residential real estate	1,654	-	1,654	-
Commercial real estate	190	-	190	-
Commercial other	178	-	178	-
Other	105	-	105	-
Total assets	$ 3,769	$ -	$ 3,769	$ -

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2015 and 2014, respectively.

The Company has no assets or liabilities whose fair values are measured using level 3 inputs as of December 31, 2015 or 2014.

NOTE 24 - PARENT COMPANY FINANCIAL INFORMATION

Following is condensed financial information of Atlantic Bancshares, Inc. (parent company only):

Condensed Balance Sheets
December 31, 2015 and 2014

	December 31, 2015	December 31, 2014
Assets:		
Cash and cash equivalents	$ 171,325	$ 207,821
Investment in subsidiary	9,761,799	8,126,633
Other assets	133,423	-
Total assets	**$ 10,066,547**	**$ 8,334,454**
Liabilities and Shareholders' Equity:		
Other liabilities	712,676	470,277
Shareholders' equity	9,353,871	7,864,177
Total liabilities and shareholders' equity	**$ 10,066,547**	**$ 8,334,454**

Condensed Statements of Operations
For the years ended December 31, 2015 and 2014

	2015	2014
Other Income	$ -	$ -
Total	-	-
Salaries and benefits	17,461	19,250
Professional fees	6,800	7,496
Other expense	65,852	33,467
Total	90,113	60,213
Loss before income tax expense and equity in undistributed net income of subsidiary	(90,113)	(60,213)
Income tax expense	-	-
Equity in undistributed net income of subsidiary	1,629,282	1,041,388
Net income	**$ 1,539,169**	**$ 981,175**

NOTE 24 - PARENT COMPANY FINANCIAL INFORMATION - (continued)

Condensed Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	2015	2014
Operating activities		
Net income	$ 1,539,169	$ 981,175
Adjustments to reconcile net income to net cash used by operating activities:		
Equity in undistributed net income of subsidiary	(1,629,282)	(1,041,388)
Stock based compensation expense	17,461	19,250
Stock warrant exercise	116,000	-
Increase in other assets	(133,423)	-
Increase in other liabilities	53,579	21,800
Net cash used by operating activities	(36,496)	(19,163)
Net decrease in cash and cash equivalents	(36,496)	(19,163)
Cash and cash equivalents, beginning of year	207,821	226,984
Cash and cash equivalents, end of year	**$ 171,325**	**$ 207,821**
Supplemental disclosures of noncash activities:		
Preferred stock dividends accrued	$ 188,820	$ 109,041
Net accretion/amortization of preferred stock discount premium	$ -	$ 24,744

NOTE 25 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through February 24, 2016, the date the financial statements were issued.

As discussed in Note 15, the Company is in the process of a capital raise. As of February 24, 2016, the Company had funds held in escrow totaling $3,448,555 related to the capital raise. The Company expects to break escrow in the first quarter of 2016.

CORPORATE DATA

ANNUAL MEETING:

The Annual Meeting of Shareholders of Atlantic Bancshares, Inc. will be held on May 27, 2016 at 10:00 AM at the Community Center, Oscar Frazier Park, 77 Shults Road, Bluffton, South Carolina 29910.

CORPORATE OFFICE:

One Sheridan Park Circle
Bluffton, South Carolina 29910
Phone: 843.815.7111
Fax: 843.815.7112

CORPORATE COUNSEL:

Bryan Cave, LLP
1201 West Peachtree St. NW, Suite 1400
Atlanta, Georgia 30309-3488
www.bryancave.com

INDEPENDENT AUDITORS:

Elliott Davis Decosimo, LLC
1901 Main Street, Suite 900
Columbia, South Carolina 29202
www.elliottdavis.com

STOCK TRANSFER AGENT:

Broadridge Corporate Issuer Solutions, Inc.
1717 Arch Street, Suite 1300
Philadelphia, Pennsylvania 19103
www.shareholder.broadridge.com

STOCK INFORMATION:

Our common stock is listed on the OTC Pink marketplace, operated by OTC Markets Group Inc., under the symbol "ATBA." As of February 19, 2016, there were 245 shareholders of record of our common stock and 230 shareholders of record of our Series AAA Preferred Stock.

Our ability to pay cash dividends is dependent upon receiving cash in the form of dividends from Atlantic Community Bank. However, certain restrictions exist regarding the ability of the Bank to transfer funds to us in the form of cash dividends. All of the Bank's dividends to us are payable only from the undivided profits of the Bank.

LOCATIONS:

Sheridan Park Branch
One Sheridan Park Circle
Bluffton, South Carolina 29910
Phone: 843.815.7111
Fax: 843.815.7112

mailing: (all locations)
Post Office Box 3077
Bluffton, South Carolina 29910

Hilton Head Island Branch
5A Park Lane
Hilton Head Island, South Carolina 29928
Phone: 843.785.3400
Fax: 843.785.3414

“a” Online:
www.atlanticcommunitybank.com
www.youracb.com