Board of Governors of the Federal Reserve System

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)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). 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, top-tier savings and loan holding companies, and U.S. intermediate 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. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who 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.

Signature of Holding Company Director and Official

03/17/2017
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 ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2016
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	EVP & 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

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. **a letter justifying this request is being provided along with the report** .... [ ]
2. **a letter justifying this request has been provided separately** .... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

N/A

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

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City State Zip Code

Physical Location (if different from mailing address)

Form FRY-6

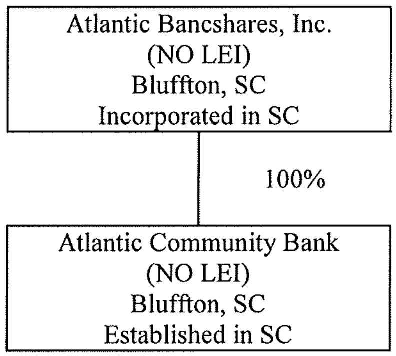
Atlantic Bancshares, Inc.
One Sheridan Park Circle
PO Box 3077
Bluffton, SC 29910

Fiscal year ended December 31, 2016

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 01/20/2017

3. Securities holders > 5%

3.1 Edgar L. Woods Beneficially Owns., 31.7% - common stock, AAA preferred stock and vested NQSO
Ridgeland, SC USA

Edgar L. Woods,	399,200 common stock, 8.905% 10,417 vested NQSO, .232% 950 AAA preferred stock, .021%
Woods Holdings Inc.,	112,400 common stock, 2.507%
RPM Palmetto Grain Brokerage LLC Profit Sharing Plan DTD 12/01/01 FBO Edgar L. Woods,	9,917 common stock, .221% 280 AAA preferred stock, .006%
Edgar Laudy Woods and Karin Marie Hamberg Woods, as Trustees of the Edgar Laudy Woods Trust Agreement dated April 6, 2015	886,000 common stock, 19.764%

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 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

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	FCIC 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	5A PARK LANE	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, 2016

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 (inlcude 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	Partner - Hilton Head Insurance	4.0%	N/A	40% - Hilton Head Insurance
Frederick Anthony Nimmer, III Bluffton, SC USA	Sod 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 Vice-President - Champion Fuel Pellets, LLC	2.8%	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 40% - Champion Fuel Pellets, LLC
Robyn Josselson Shirley Bluffton, SC USA	Practice Manager	Director	Director Atlantic Community Bank	Practice Manager - Southeastem Oral and Maxillofacial Surgery Center, Inc. Member - Bluffton Plantattion Group Co-owner - Sago Management, LLC	2.1%	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 Member - All Joy Investors 2, LLC	3.2%	N/A	100% - Palmetto Dental Arts, PA 33% - Combahee Holdings, LLC 33 % - Alljoy Investors, LLC 100 % - Old Village Square, LLC 50% Alljoy Investors 2, LLC

Form FRY-6
Atlantic Bancshares, Inc.
Fiscal year ended December 31, 2016

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 (inlcude 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 - BHBL LLC Member - 163 Bluffton Road, LLC Owner Sandbar Insurance Member/Owner Whale Branch MBH, LLC Member Sandbar Investors, LLC Member - CIBB International Owner - WB LLC Member - Bluffton Plantation Group			33% BHBL LLC 33% 163 Bluffton Road, LLC 100% Sandbar Insurance 100% Whale Branch MBH, LLC 100% Sandbar Investors LLC 25% CIBB International 100% - WB 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, Inc	31.7% ***	N/A	95 % - Palmetto Grain Brokerage, LLC 100% - Performance Ag, LLC 50% - S.C. Ag Group 100% - Woods Holdings, Inc
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	0.7%	N/A	95% Blue Crab Investors, LLC
Robert L. McKinney Hilton Head Island, SC USA	N/A	Chief Executive Officer & Pres. & Director	Chief Executive Officer & Pres. Atlantic Community Bank	N/A	2.1%	N/A	N/A
Todd D. Hoke Hilton Head Island, SC USA	N/A	Chief Credit Officer & EVP	Chief Credit Officer & EVP Atlantic Community Bank	N/A	1.0%	N/A	N/A

*** Edgar L. Woods Benefical Ownership - see 3.1 for detail

ATLANTIC BANCSHARES, INC.

Consolidated Financial Statements

and

Independent Auditor's Report

December 31, 2016 and 2015

ATLANTIC BANCSHARES, INC.

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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, 2016 and 2015, 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 consolidated 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, 2016 and 2015, 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 22, 2017

Atlantic Bancshares, Inc.

Consolidated Balance Sheets

	December 31,	
	2016	2015
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 4,571,317	$ 1,400,614
Interest bearing deposits with other banks	15,389,092	21,138,230
Total cash and cash equivalents	19,960,409	22,538,844
Securities available for sale	695,738	805,079
Nonmarketable equity securities	177,200	217,400
Loans receivable	66,443,412	59,523,062
Less allowance for loan losses	(723,625)	(610,228)
Loans, net	65,719,787	58,912,834
Accrued interest receivable	145,051	145,670
Premises, furniture and equipment, net	309,740	314,765
Repossessed assets and other real estate owned	635,279	859,007
Deferred tax asset, net	2,750,691	2,709,611
Other assets	260,581	461,496
Total assets	90,654,476	86,964,706
Liabilities:		
Deposits:		
Noninterest bearing transaction accounts	$ 40,458,993	$ 35,211,763
Interest-bearing transaction accounts	5,615,334	4,454,705
Savings and money market	16,804,614	14,990,930
Time deposits $250,000 and over	1,753,768	2,842,252
Other time deposits	14,608,392	17,989,667
Total deposits	79,241,101	75,489,317
Advances from Federal Home Loan Bank	-	1,250,000
Accrued interest payable	27,098	137,405
Other liabilities	131,451	734,113
Total liabilities	79,399,650	77,610,835
Commitments and Contingencies - Notes 14, 17 and 22		
Shareholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized;		
Series A, 0 and 2,000 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	-	1,999,933
Series B, $1,000 stated value; 0 and 98 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	-	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; 4,172,422 and 2,390,777 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	15,830,473	12,485,009
Additional paid in capital	661,123	608,962
Accumulated other comprehensive loss	(7,082)	(4,182)
Retained deficit	(6,687,772)	(7,292,036)
Total shareholders' equity	11,254,826	9,353,871
Total liabilities and shareholders' equity	$ 90,654,476	$ 86,964,706

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

Consolidated Statements of Income
For the years ended December 31, 2016 and 2015

	2016	2015
Interest income:		
Loans, including fees	$ 3,273,682	$ 3,052,688
Securities available for sale	17,246	19,468
Nonmarketable equity securities	9,987	10,302
Interest bearing deposits with other banks	58,449	39,578
Total	3,359,364	3,122,036
Interest expense:		
Time deposits $250,000 and over	19,469	21,543
Other deposits	146,873	235,741
Other borrowings	11,005	25,148
Total	177,347	282,432
Net interest income	3,182,017	2,839,604
Provision for loan losses	285,000	304,000
Net interest income after provision for loan losses	2,897,017	2,535,604
Noninterest income:		
Service fees on deposit accounts	95,770	133,956
Residential mortgage origination fees	63,001	85,563
Bank card fees	168,976	155,778
Other income	134,603	128,652
Total	462,350	503,949
Noninterest expenses:		
Salaries and employee benefits	1,485,794	1,370,986
Net occupancy	379,279	332,237
Professional fees	114,130	151,910
Marketing	42,826	32,793
Furniture and equipment	58,469	50,525
Data processing and related costs	462,447	419,336
FDIC assessments	55,653	70,768
Net recovery of operation of other real estate owned and repos	(198,496)	(71,522)
Other operating	323,712	312,390
Total	2,723,814	2,669,423
Income before income tax benefit	635,553	370,130
Income tax benefit	(18,504)	(1,169,039)
Net income	$ 654,057	$ 1,539,169
Preferred stock dividends accrued	49,793	188,820
Net income available to common shareholders	$ 604,264	$ 1,350,349
Basic income per common share	.16	.59
Average common shares outstanding - basic	3,865,745	2,306,240
Diluted income per common share	.15	.57
Average common shares outstanding - diluted	3,902,317	2,366,482

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

Atlantic Bancshares, Inc.

Consolidated Statements of Comprehensive (Loss) Income
For the years ended December 31, 2016 and 2015

	2016	2015
Net income	$ 654,057	$ 1,539,169
Other comprehensive (loss) income		
Unrealized holding (losses) gains arising during the period	(4,393)	8,914
Tax effect	1,493	(3,030)
Other comprehensive (loss) income, net of tax	(2,900)	5,884
Comprehensive income	$ 651,157	$ 1,545,053

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, 2016 and 2015

	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, 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
Net income	-	-	-	-	-	654,057	-	654,057
Issuance of common stock	1,781,645	3,563,290	-	-	-	-	-	3,563,290
Less offering costs	-	(217,826)	-	-	-	-	-	(217,826)
Preferred Stock Redemption	-	-	(2,098)	(2,098,034)	-	-	-	(2,098,034)
Other comprehensive loss, net of taxes of $1,493	-	-	-	-	-	-	(2,900)	(2,900)
Preferred stock dividends	-	-	-	-	-	(49,793)	-	(49,793)
Stock based compensation	-	-	-	-	52,161	-	-	52,161
Balance, December 31, 2016	4,172,422	$ 15,830,473	151,724	$ 1,458,084	$ 661,123	$ (6,687,772)	$ (7,082)	$ 11,254,826

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net income	$ 654,057	$ 1,539,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	285,000	304,000
Net gain on sale of other real estate owned	(267,017)	(53,635)
Net write downs (recoveries) of other real estate owned	10,525	(58,796)
Depreciation expense	133,463	117,647
Net accretion/amortization on securities available for sale	930	977
Stock-based compensation expense	52,161	17,461
Deferred income tax benefit	(39,586)	(1,207,456)
Decrease in interest receivable	619	12,256
Decrease (increase) in other assets	200,915	(228,911)
(Decrease) increase in interest payable	(110,307)	55,078
Decrease in other liabilities	(652,455)	(22,392)
Net cash provided by operating activities	268,305	475,398
Cash flows from investing activities:		
Net increase in loans receivable	(7,130,853)	(3,646,917)
Proceeds from sales of repossessed assets and other real estate owned	519,120	1,182,033
Purchase of premises, furniture and equipment	(128,438)	(16,751)
Purchase of nonmarketable equity securities	(106,500)	(91,000)
Repayments, maturities and calls of securities available for sale	104,017	77,713
Redemption of nonmarketable equity securities	146,700	132,700
Net cash used by investing activities	(6,595,954)	(2,362,222)
Cash flows from financing activities:		
Net increase in demand deposits, interest-bearing transaction accounts and savings accounts	8,221,543	9,038,101
Net decrease in certificates of deposit and other time deposits	(4,469,759)	(1,491,627)
Net decrease in FHLB advances	(1,250,000)	(750,000)
Stock warrant exercise	-	116,000
Proceeds from issuance of common stock, net of stock issuance costs	3,345,464	-
Repayment of preferred stock	(2,098,034)	-
Net cash provided by financing activities	3,749,214	6,912,474
Net (decrease) increase in cash and cash equivalents	(2,578,435)	5,025,650
Cash and cash equivalents, beginning of the year	22,538,844	17,513,194
Cash and cash equivalents, end of the year	**$ 19,960,409**	**$ 22,538,844**
Cash paid for:		
Interest	$ 287,654	$ 227,529
Income taxes	$ 9,000	$ 56,731
Supplemental disclosures of noncash activities:		
Additions to repossessed assets and other real estate owned	$ 38,900	$ 1,176,820
Change in unrealized (losses) gains on securities available for sale	$ (4,393)	$ 8,914
Preferred stock dividends accrued	$ 49,793	$ 188,820

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 $53,234,215 at December 31, 2016, representing 81% 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, 2016, the Company identified three impaired loans totaling $205,123 related to this concentration. The Company experienced net (recoveries) losses related to this identified risk totaling $(49,722) and $265,242 during the years ended December 31, 2016 and 2015, 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, 2016 and 2015. 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, 2016 and 2015, the Company's investment in Federal Home Loan Bank stock was $177,200 and $217,400, 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, 2016 and 2015 was $1,174 and $102, 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 $10,820 and $13,006 for the years ended December 31, 2016 and 2015, 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. This plan expired in 2016.

The Company has the ability to also grant non-qualified stock options. These options are valued based on the Black-Sholes model and further described in Note 10.

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 May 2014, the Financial Accounting Standards Board (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 reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB deferred the effective date of Accounting Standards Update (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 reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified 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 ASC 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.

In February 2016, the FASB amended the Leases topic of the ASC to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In March 2016, the FASB amended several topics of the ASC to make the guidance in all private company accounting alternatives effective immediately by removing their effective dates. The amendments also include transition provisions that provide that private companies are able to forgo a preferability assessment the first time they elect the private company accounting alternatives. The amendments were effective immediately. These amendments did not have a material effect on the Company's financial statements.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. 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 March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Company for reporting periods beginning after December 15, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB amended the Statement of Cash Flows topic of the ASC to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments will be effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In October 2016, the FASB amended the Income Taxes topic of the ASC to modify the accounting for intra-entity transfers of assets other than inventory. The amendments will be effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2016, the FASB issued amendments to clarify the 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 (December 14, 2016) 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, 2016. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2017. The Company will apply the guidance using a modified retrospective approach. 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.

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

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 2015 financial statements were reclassified to conform with the 2016 presentation, with no effect on net income or equity.

NOTE 2 - CASH AND DUE FROM BANKS

At December 31, 2016 and 2015, 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, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SBA asset-backed security	$ 706,468	$ -	$ 10,730	$ 695,738
Total investment securities	$ 706,468	$ -	$ 10,730	$ 695,738

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

The amortized costs and fair values of investment securities available for sale at December 31, 2016 and 2015, 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.

	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after five through ten years	$ 706,468	$ 695,738	$ 811,416	$ 805,079
Total investment securities	$ 706,468	$ 695,738	$ 811,416	$ 805,079

The Company sold no securities in 2016 or 2015. Accordingly, no gains or losses were realized in 2016 or 2015. No securities were specifically pledged as collateral for various lines of credit and advance capacity with correspondent banks as of December 31, 2016 or 2015. In addition, no securities were pledged to secure public deposits at December 31, 2016 and 2015.

NOTE 3 - SECURITIES AVAILABLE FOR SALE - (continued)

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, 2016 and 2015.

	December 31, 2016					
	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	$ 695,738	$ 10,730	$ -	$ -	$ 695,738	$ 10,730

	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

Securities classified as available-for-sale are recorded at fair market value. At December 31, 2016 and 2015, 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,	
	2016	2015
Construction and land development	$ 8,127,318	$ 8,568,190
Residential real estate	31,481,282	26,237,319
Commercial real estate	21,752,933	20,352,153
Commercial other	1,824,091	2,541,075
Consumer	1,898,261	748,621
Other	1,359,527	1,075,704
	66,443,412	59,523,062
Less:		
Allowance for loan losses	723,625	610,228
Total loans receivable, net	**$ 65,719,787**	**$ 58,912,834**

NOTE 4 - LOANS RECEIVABLE - (continued)

The following is an analysis of the allowance for loan losses by class of loans for the year ended December 31, 2016:

(Dollars in thousands)	Construction and Land Development	Residential Real Estate	Commercial Real Estate	Commercial Other	Consumer	Other	Total
Allowance for loan losses:							
Beginning balance	$ 180	$ 359	$ 22	$ 20	$ 11	$ 18	$ 610
Charge-offs	(17)	(29)	-	(252)	(15)	(4)	(317)
Recoveries	61	76	3	6	-	-	146
Provisions	(82)	(119)	20	403	8	55	285
Ending balance	$ 142	$ 287	$ 45	$ 177	$ 4	$ 69	$ 724
Ending balances:							
Individually evaluated for impairment	$ 10	$ -	$ 1	$ 1	$ -	$ -	$ 12
Collectively evaluated for impairment	$ 132	$ 287	$ 44	$ 176	$ 4	$ 69	$ 712
Loans receivable:							
Ending balance - total	$ 8,127	$ 31,481	$ 21,753	$ 1,824	$ 1,898	$ 1,360	$ 66,443
Ending balances							
Individually evaluated for impairment	$ 184	$ 22	$ 183	$ 110	$ 12	$ -	$ 511
Collectively evaluated for impairment	$ 7,943	$ 31,459	$ 21,570	$ 1,714	$ 1,886	$ 1,360	$ 65,932

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

NOTE 4 - LOANS RECEIVABLE - (continued)

The following summarizes the Company's impaired loans as of December 31, 2016:

(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	$ 38	$ 55	$ -	$ 7	$ 3
Residential real estate	22	192	-	26	-
Commercial real estate	146	146	-	147	9
Commercial other	-	-	-	96	-
Consumer	12	12	-	32	-
Other	-	-	-	-	-
	$ 218	$ 405	$ -	$ 308	$ 12
With an allowance recorded:					
Construction and land development	$ 146	$ 146	$ 10	$ 275	$ 5
Residential real estate	-	-	-	42	-
Commercial real estate	37	37	1	39	2
Commercial other	110	130	1	111	5
Consumer	-	-	-	-	-
Other	-	-	-	-	-
	$ 293	$ 313	$ 12	$ 467	$ 12
Total:					
Construction and land development	$ 184	$ 201	$ 10	$ 282	$ 8
Residential real estate	22	192	-	68	-
Commercial real estate	183	183	1	186	11
Commercial other	110	142	1	207	5
Consumer	12	-	-	32	-
Other	-	-	-	-	-
	$ 511	$ 718	$ 12	$ 775	$ 24

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

NOTE 4 - LOANS RECEIVABLE - (continued)

The following is a summary of past due loans as of December 31, 2016:

(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	$ -	$ -	$ -	$ -	$ 8,127	$ 8,127	$ -
Residential real estate	-	-	22	22	31,459	31,481	-
Commercial real estate	-	-	-	-	21,753	21,753	-
Commercial other	-	-	-	-	1,824	1,824	-
Consumer	-	-	-	-	1,898	1,898	-
Other	-	-	-	-	1,360	1,360	-
	$ -	$ -	$ 22	$ 22	$ 66,421	$ 66,443	$ -

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 nonaccrual loans as of December 31, 2016 and 2015:

(Dollars in thousands)	2016	2015
Construction and land development	$ 38	$ -
Residential real estate	22	27
Consumer	-	12
	$ 60	$ 39

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.

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

NOTE 4 - LOANS RECEIVABLE - (continued)

The following is a summary of the Company's loans as of December 31, 2016:

(Dollars in thousands)	Construction and Land Development	Residential Real Estate	Commercial Real Estate	Commercial Other	Consumer	Other	Total
Pass	$ 7,451	$ 29,122	$ 20,935	$ 1,566	$ 1,826	$ 1,360	$ 62,260
Special mention	530	2,337	781	245	72	-	3,965
Substandard	146	22	37	13	-	-	218
Doubtful	-	-	-	-	-	-	-
	$ 8,127	$ 31,481	$ 21,753	$ 1,824	$ 1,898	$ 1,360	$ 66,443

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

Troubled Debt Restructurings

The following table summarizes the carrying balance of troubled debt restructurings ("TDRs") as of December 31, 2016 and 2015:

	2016	2015
Construction and land development	$ 145,507	$ 311,664
Residential real estate	22,000	132,711
Commercial real estate	183,123	188,648
Commercial other	13,365	152,697
Consumer	12,424	53,975
Total TDRs	$ 376,419	$ 839,695

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.

During the year ended December 31, 2016, no loans were modified as a troubled debt restructuring. During the year ended December 31, 2016, no loans that had previously been restructured subsequently defaulted during the year.

The following is an analysis of loans classified as 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

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.

NOTE 4 - LOANS RECEIVABLE - (continued)

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

(Dollars in thousands)

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
	3	$ 420

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:

	2016	2015
Leasehold improvements	$ 912,467	$ 924,255
Furniture and equipment	375,558	692,778
Accumulated depreciation	(978,285)	(1,302,268)
Total premises, furniture and equipment, net	$ 309,740	$ 314,765

Depreciation expense for the years ended December 31, 2016 and 2015 was $133,463 and $117,647, respectively.

In 2016, management evaluated all assets that were fully depreciated and removed them from the Company's books.

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:

	2016	2015
Balance, beginning of the year	$ 859,007	$ 751,789
Additions	38,900	1,176,820
Sales	(252,103)	(1,128,398)
Allowance	(10,525)	58,796
Balance, end of year	$ 635,279	$ 859,007

NOTE 7 - DEPOSITS

At December 31, 2016 the scheduled maturities of certificates of deposit are as follows:

2017	$ 14,367,683
2018	1,287,904
2019	69,975
2020	636,598
	$ 16,362,160

Included in the maturity schedule are thirty-three Certificate of Deposit Account Registry Service ("CDARS") reciprocal deposits totaling $4,290,022. These deposits have a remaining maturity ranging from 1 to 12 months and a weighted average rate of .59%.

NOTE 7 – DEPOSITS - (continued)

At December 31, 2016 and 2015, the Bank had deposits with a deficit overdraft balance of $1,479 and $5,442, respectively, which were re-classified as consumer loans.

At December 31, 2016, 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

The Bank had no advances from the Federal Home Loan Bank of Atlanta as of December 31, 2016. There were $1,250,000 in advances from the Federal Home Loan Bank of Atlanta as of December 31, 2015. 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, 2016 and 2015, 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	2016	2015
07/25/2016	.7900%	$ -	$ 500,000
07/25/2016	.7900%	-	750,000
Total advances from Federal Home Loan Bank		$ -	$ 1,250,000

NOTE 9 - ADVANCES FROM THE FEDERAL RESERVE BANK

There were no Federal Reserve advances outstanding as of December 31, 2016 or 2015. 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 $1,176,230 and $1,619,342 as of December 31, 2016 and December 31, 2015, respectively. As of December 31, 2016 and 2015, the Bank's lendable collateral included certain lot loans only.

NOTE 10 - STOCK BASED COMPENSATION

In accordance with the Company's original stock option plan and with certain employment agreements, the Company granted various stock options throughout the life of the ten year plan. The plan expired in 2016; however, certain unexpired options remain outstanding.

On July 27, 2016, the five outside directors were each granted 50,000 non-qualified 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 44.56%, risk free interest rate of 1.23% and an expected life of six years. The options vest over a two year period. The options have an exercise price of $2.00 per share and terminate ten years after the date of grant.

On September 28, 2016, the CEO, CFO and the CCO were each granted 15,000 non-qualified 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 44.56%, risk free interest rate of 1.27% and an expected life of six years. The options vest over a two year period. The options have an exercise price of $2.00 per share and terminate ten years after the date of grant.

As of December 31, 2016 there was $181,964 of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 1.61 years. The compensation cost recognized in income totaled $52,161 and $17,461 during the years ended December 31, 2016 and 2015, respectively.

NOTE 10 - STOCK BASED COMPENSATION - (continued)

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

	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	123,516	$ 3.80	123,516	$ 3.80
Granted	295,000	2.00	-	
Exercised	-		-	
Forfeited	-		-	
Expired	22,516	10.00	-	
Outstanding at December 31,	396,000	$ 2.11	123,516	$ 3.80

At December 31, 2016 and 2015, 158,707 and 114,349 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, 2016:

	Outstanding	Exercisable
Number of options	396,000	158,708
Weighted average remaining life	8.68	7.29
Weighted average exercise price	$ 2.11	$ 2.26
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, 2016	9,167	$ .68
Granted	295,000	.77
Vested	66,875	.76
Forfeited	-	
Nonvested at December 31, 2016	237,292	$ .77

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 and did so in 2016.

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.

For the year ended December 31, 2016, there were no warrants granted, forfeited or exercised and 50,000 warrants expired. In 2015, there were no warrants granted, forfeited or expired. 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:

	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1,	50,000	$ 10.00	166,000	$ 3.71
Granted	-		-	
Exercised	-		116,000	1.00
Forfeited	-		-	
Expired	50,000	10.00	-	
Outstanding at December 31,	-	$ -	50,000	$ 10.00

At December 31, 2016, there were no warrants exercisable. At December 31, 2015, 50,000 warrants were exercisable.

NOTE 12 - INCOME TAXES

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

	2016	2015
Current expense		
Federal	$ -	$ -
State	22,733	36,766
	22,733	36,766
Deferred tax benefit	(41,237)	(1,205,805)
Income tax benefit	(18,504)	(1,169,039)

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

	December 31,	
	2016	2015
Deferred tax assets:		
Unrealized loss on securities available for sale	$ 3,648	$ 2,155
Net operating loss carryforward	2,527,993	2,875,691
Organizational and start-up costs	66,156	82,728
Nonaccrual interest	399	35
Other	137,264	133,656
New jobs tax credit carryforwards	90,470	97,114
Gross deferred tax assets	2,825,930	3,191,379
Valuation allowance	(28,791)	(300,134)
Total deferred tax assets	2,797,139	2,891,245
Deferred tax liabilities:		
Allowance for loan losses	11,939	136,484
Net capitalized loan costs and fees	23,306	11,965
Prepaid expenses	11,203	33,185
Total deferred tax liabilities	46,448	181,634
Net deferred tax assets	$ 2,750,691	$ 2,709,611

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, 2016 will not be realized, and, accordingly, has established a partial valuation allowance. The valuation allowance decreased by $271,343 in 2016 and $1,361,146 in 2015.

NOTE 12 - INCOME TAXES - (continued)

The Company has a net operating loss for Federal income tax purposes of $7,355,288 as of December 31, 2016. This net operating loss begins to expire in the year 2027. The Company has state net operating losses of $824,083 as of December 31, 2016. 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 2016 and 2015 to income before income taxes follows:

	2016	2015
Tax expense at a statutory rate	$ 216,088	$ 125,844
Differences:		
Stock-based compensation	2,150	9,426
Other	34,601	56,837
Valuation allowance	(271,343)	(1,361,146)
Income tax benefit	$ (18,504)	$ (1,169,039)

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, 2013 through December 31, 2016 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 $42,929 and $39,857 for the years ended December 31, 2016 and 2015, 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. This lease was not renewed 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, including common area maintenance ("CAM") and additional expenses, for the years ended December 31, 2016 and December 31, 2015 totaled $227,157 and $189,623, 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 and thereafter in the aggregate are:

2017	$ 175,118
2018	$ 181,958
2019	$ 189,170
2020	$ 193,886
2021 and thereafter	$ 325,032

NOTE 15 - SHAREHOLDERS' EQUITY

Common Stock. On November 20, 2015, the Company initiated a stock offering in the form of a Confidential Offering Circular. In the offering, which concluded on March 4, 2016, the Company sold 1,781,645 shares of common stock and received gross proceeds of $3,563,290 which was used to redeem the Series A and Series B Preferred shares and to pay all accrued dividends and interest. The remaining proceeds will be used for general corporate purposes and to provide additional capital to support the business operations of the Company and the Bank. Costs associated with the offering totaling $217,826 were netted against the proceeds.

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. On April 6, 2016, the Company redeemed the Series A and Series B Preferred shares including all accrued dividends and interest in the amount of $2,700,721 and $154,870, respectively.

The Company also has a class of Series AAA Preferred Stock. The terms of the Series AAA Preferred Stock provides, among other things, that the Series AAA Preferred Stock is generally nonvoting, ranks senior to the Company's common stock, carries a 5% dividend preference per share over the Company's common stock, carries a liquidation preference over the Company's common stock, and converts to common stock in the event of a change-in-control of the Company.

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, 2016 and 2015, the Company had related party loans totaling $1,059,810 and $1,091,126, respectively.

Deposits by directors, including their affiliates and executive officers, at December 31, 2016 and 2015 were $27,561,142 and $24,940,125, 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 $14,000 and $38,095 for the years ended December 31, 2016 and 2015, respectively. This lease expired on July 31, 2016.

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.

	2016	2015
Basic income per share computation:		
Net income to common shareholders	$ 604,264	$ 1,350,349
Average common shares outstanding - basic	3,865,745	2,306,240
Basic income per common share	$ .16	$ 0.59
Diluted income per share computation:		
Net income to common shareholders	$ 604,264	$ 1,350,349
Average common shares outstanding - basic	3,865,745	2,306,240
Incremental shares from assumed conversions:		
Stock options	36,572	60,242
Average common shares outstanding - diluted	3,902,317	2,366,482
Diluted income per common share	$ .15	$ 0.57

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.

NOTE 19 - REGULATORY MATTERS – (continued)

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. The capital conservation buffer in effect for the year ended December 31, 2016 was 0.625%.

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.

The following table summarizes the capital ratios and the regulatory minimum requirements of the Bank December 31, 2016 and 2015.

(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, 2016						
Total capital (to risk-weighted assets)	$ 8,669	14.84%	$ 4,674	8.00%	$ 5,842	10.00%
Tier 1 capital (to risk-weighted assets)	7,945	13.60%	3,505	6.00%	4,674	8.00%
Tier 1 capital (to average assets)	7,945	9.67%	3,285	4.00%	4,106	5.00%
Common equity tier 1 capital (to risk-weighted assets)	7,945	13.60%	2,629	4.50%	3,797	6.50%
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%

NOTE 20 - LINES OF CREDIT

As of December 31, 2016 and 2015, the Bank had four unsecured lines of credit to purchase federal funds from unrelated banks totaling $6,300,000 and $5,750,000, respectively. As of December 31, 2016 and 2015, 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, 2016 and 2015, the Bank had remaining available credit from the Federal Home Loan Bank totaling $20,005,902 and $13,775,328, respectively, based upon existing pledged loan collateral. At December 31, 2016 and 2015, an additional $462,848 and $5,042,172, 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, 2016 and 2015, the Bank had $1,176,230 and $1,619,342, respectively, of total lendable collateral available for short-term advances at the Discount Window. Lot loans totaling $2,318,922 and $2,610,405 were pledged to Federal Reserve Bank of Richmond which produced the lendable collateral value as of December 31, 2016 and 2015. 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, 2016 and 2015, 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:

	2016	2015
Commitments to extend credit	$ 6,053,405	$ 7,089,890
Commercial letters of credit	125,000	125,000
	$ 6,178,405	$ 7,214,890

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.

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

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.

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, 2016 and 2015, 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.

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

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, 2016			
Securities available for sale	**Total**	**Level 1**	**Level 2**	**Level 3**
SBA asset-backed securities	$ 695,738	$ -	$ 695,738	
Total assets	$ 695,738	$ -	$ 695,738	

	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	$ -

There were no liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015, respectively.

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, 2016 and 2015, respectively, aggregated by level in the fair value hierarchy within which those measurements fall.

	December 31, 2016			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Repossessed assets and other real estate owned	$ 635	$ -	$ 635	$ -
Impaired loans:				
Construction and development	174	-	174	-
Residential real estate	22	-	22	-
Commercial real estate	182	-	182	-
Commercial other	109	-	109	-
Consumer	12	-	12	-
Total assets	$ 1,134	$ -	$ 1,134	$ -

	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	-
Consumer	66	-	66	-
Total assets	$ 1,661	$ -	$ 1,661	$ -

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2016 and 2015, respectively.

The Company has no assets or liabilities whose fair values are measured using level 3 inputs as of December 31, 2016 or 2015.

NOTE 24 - PARENT COMPANY FINANCIAL INFORMATION

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

Condensed Balance Sheets
December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
Assets:		
Cash and cash equivalents	$ 767,590	$ 171,325
Investment in subsidiary	10,206,308	9,761,799
Other assets	280,928	133,423
Total assets	**$ 11,254,826**	**$ 10,066,547**
Liabilities and Shareholders' Equity:		
Other liabilities	-	712,676
Shareholders' equity	11,254,826	9,353,871
Total liabilities and shareholders' equity	**$ 11,254,826**	**$ 10,066,547**

Condensed Statements of Operations
For the years ended December 31, 2016 and 2015

	2016	2015
Other Income	$ 1,166	$ -
Total	1,166	-
Salaries and benefits	52,161	17,461
Professional fees	13,000	6,800
Other expense	10,284	65,852
Total	75,445	90,113
Loss before income tax benefit and equity in undistributed net income of subsidiary	(74,279)	(90,113)
Income tax benefit	(280,928)	-
Equity in undistributed net income of subsidiary	447,408	1,629,282
Net income	**$ 654,057**	**$ 1,539,169**

NOTE 24 - PARENT COMPANY FINANCIAL INFORMATION - (continued)

Condensed Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	2016	2015
Operating activities		
Net income	$ 654,057	$ 1,539,169
Adjustments to reconcile net income to net cash used by operating activities:		
Equity in undistributed net income of subsidiary	(447,408)	(1,629,282)
Stock based compensation expense	52,161	17,461
Increase in other assets	(147,505)	(133,423)
(Decrease) increase in other liabilities	(762,470)	53,579
Net cash used by operating activities	(651,165)	(152,496)
Financing activities		
Stock warrant exercise	-	116,000
Proceeds from issuance of common stock, net of stock offering costs	3,345,464	-
Repayment of preferred stock	(2,098,034)	-
Net cash provided financing activities	1,247,430	116,000
Net increase (decrease) in cash and cash equivalents	596,265	(36,496)
Cash and cash equivalents, beginning of year	171,325	207,821
Cash and cash equivalents, end of year	$ 767,590	$ 171,325
Supplemental disclosures of noncash activities:		
Preferred stock dividends accrued	$ 49,793	$ 188,820

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 22, 2017, the date the financial statements were issued.

CORPORATE DATA

ANNUAL MEETING:

The Annual Meeting of Shareholders of Atlantic Bancshares, Inc. will be held on May 24, 2017 at 10:00 AM at the Sonesta Resort, 130 Shipyard Drive, Hilton Head Island, South Carolina 29910.

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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 21, 2017, there were 261 shareholders of record of our common stock and 138 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.

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