

Dear Stockholders, Customers, Employees, and Friends,

I am extremely pleased and proud of the Bank's year. 2016 profits of over \$5 million and earnings per share in excess of \$1.00 represent record milestones for our institution. As we celebrate the 30<sup>th</sup> anniversary of the Bank's opening, we are reminded of the fundamental values and principles we are founded upon – namely, PERSONAL SERVICE, RESPONSIVENESS, ATTENTION TO DETAIL, and LONG-STANDING RELATIONSHIPS.

**“We are here to stay. As part of the community, we won't abandon our customers for a more lucrative market or location; and we will go out of our way to make their banking convenient and easy.” [Annual Report 1995]**

Other financial highlights include return on equity and assets consistently above 10% and 1%, respectively, stable net interest margins, exceptional expense control, resulting in an efficiency ratio below 60% - all the while growing loan, deposit, and capital ratios to exceptional levels. We are also the beneficiary of the purchase of the state portion of a tax credit generated from the extensive renovation of one of Charleston's iconic historic buildings. This investment in our community will result in positive treatment of our state income tax for some time.

**“Our reputation and commitment are as dependable as the tides that nourish the Lowcountry landscape. Our contribution does not begin and end with a check written to a charitable organization. Instead, we are actively involved in a number of civic and community groups that are dedicated to improving the quality of life for all the residents of the Lowcountry.” [Annual Report 1995]**

The future remains unclear as to what impact the new Presidential leadership will have on our industry; however, for the first time in many years, we remain optimistic that there will be some meaningful legislation regarding regulatory relief. We believe we are slowly returning to a more traditional interest rate environment – albeit at a pace which is unknown. Regardless, we are prepared to continue manufacturing earnings on a consistent and traditional basis.

**“Win the relationship game and be a close follower to innovation and technology. Our philosophy is to use technology to enhance service – not to replace it. This is a good formula for success.” [Annual Report 2000]**

We were again named a 5-Star Bank by Bauer Financial, Inc., and remained at or near the top of the banks in the state rated by the Financial Management Consulting Group. We remain committed to the opening of our North Charleston office despite significant development delays. In the third quarter, we were pleased to increase our quarterly cash dividend 8% to \$0.14 per share, and once again, pay out approximately 50% of our profits while maintaining strong capital levels.

Ms. Katherine Huger, an organizer and founding Bank Director, is retiring from our Board following the Annual Meeting on April 11, 2017. She will remain on as a Director Emeritus and a permanent member of our Bank family.

**“In February 26, 1987, The Bank of South Carolina began its mission of providing the finest quality of service through professional bankers to individuals, businesses, and governments in the Tri-County Area.” [Annual Report 1987]**

Over the past thirty years, we have developed our own brand of community banking, our own model of consistency, and our own culture of relationship banking. We stand on the shoulders of the many that have come before us and we look forward to a future that is STRONG, SECURE, and STABLE.

*Fleetwood S. Hassell*  
*President & CEO*

*Douglas H. Sass*  
*Executive Vice President &*  
*Senior Lender*

*Eugene H. Walpole, IV.*  
*Senior Vice President & CFO*

*Susanne K. Boyd*  
*Senior Vice president &COO*

*Hugh C. Lane, Jr.*  
*Chairman*

**BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

	<b>DECEMBER 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 8,141,030	\$ 5,295,924
Interest-bearing deposits in other banks	18,101,300	23,898,862
Investment securities available for sale (amortized cost of \$120,942,615 and \$118,422,116 in 2016 and 2015, respectively)	119,978,944	119,997,585
Mortgage loans to be sold	4,386,210	5,820,239
Loans	260,576,115	242,622,705
Less: Allowance for loan losses	(3,851,617)	(3,417,827)
Net loans	256,724,498	239,204,878
Premises, equipment and leasehold improvements, net	2,296,624	2,289,228
Other real estate owned	521,943	620,394
Accrued interest receivable	1,614,002	1,284,063
Other assets	2,185,085	761,339
Total assets	\$ 413,949,636	\$ 399,172,512
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 126,034,478	\$ 122,073,396
Interest-bearing demand	96,260,589	84,977,640
Money market accounts	77,307,662	70,233,422
Time deposits over \$250,000	17,822,136	25,896,768
Other time deposits	26,019,121	28,871,044
Other savings deposits	29,078,865	26,666,342
Total deposits	372,522,851	358,718,612
Accrued interest payable and other liabilities	813,811	1,302,188
Total liabilities	373,336,662	360,020,800
Commitments and contingencies Notes 6 and 11		
Shareholders' equity		
Common stock-no par, 12,000,000 shares authorized; 5,197,535 and 5,157,996 shares issued at December 31, 2016 and 2015, respectively; 4,956,139 and 4,916,600 shares outstanding at December 31, 2016 and 2015, respectively	-	-
Additional paid in capital	36,824,022	36,341,744
Retained earnings	6,643,476	4,064,834
Treasury stock: 241,396 shares at December 31, 2016 and 2015	(2,247,415)	(2,247,415)
Accumulated other comprehensive income (loss), net of income taxes	(607,109)	992,549
Total shareholders' equity	40,612,974	39,151,712
Total liabilities and shareholders' equity	\$ 413,949,636	\$ 399,172,512

See accompanying notes to consolidated financial statements.

**BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS**

**YEARS ENDED DECEMBER 31,**

	<b>2016</b>		<b>2015</b>		<b>2014</b>
Interest and fee income					
Loans, including fees	\$ 12,851,900	\$	11,795,303	\$	11,263,048
Taxable securities	1,297,636		1,376,441		1,045,592
Tax-exempt securities	1,007,438		1,012,638		1,059,883
Other	138,623		45,566		49,731
Total interest and fee income	<u>15,295,597</u>		<u>14,229,948</u>		<u>13,418,254</u>
Interest expense					
Deposits	378,733		401,463		408,266
Short-term borrowings	7		932		681
Total interest expense	<u>378,740</u>		<u>402,395</u>		<u>408,947</u>
Net interest income	14,916,857		13,827,553		13,009,307
Provision for loan losses	570,000		192,500		82,500
Net interest income after provision for loan losses	<u>14,346,857</u>		<u>13,635,053</u>		<u>12,926,807</u>
Other income					
Service charges, fees and commissions	1,061,349		991,007		921,638
Mortgage banking income	1,387,740		1,605,676		1,315,020
Gains on sales of securities	380,904		423,832		312,577
Other non-interest income	31,090		29,443		29,466
Total other income	<u>2,861,083</u>		<u>3,049,958</u>		<u>2,578,701</u>
Other expense					
Salaries and employee benefits	6,087,929		5,859,203		5,466,446
Net occupancy expense	1,528,048		1,480,606		1,473,700
Net other real estate owned expenses	16,691		5,284		16,440
Other operating expenses	2,639,776		2,168,382		2,152,236
Total other expenses	<u>10,272,444</u>		<u>9,513,475</u>		<u>9,108,822</u>
Income before income tax expense	6,935,496		7,171,536		6,396,686
Income tax expense	1,688,433		2,287,248		1,997,866
Net income	<u>\$ 5,247,063</u>	\$	<u>4,884,288</u>	\$	<u>4,398,820</u>
Weighted average shares outstanding					
Basic	<u>4,935,349</u>		<u>4,912,499</u>		<u>4,907,208</u>
Diluted	<u>5,054,114</u>		<u>5,067,085</u>		<u>5,032,211</u>
Basic income per common share	<u>\$ 1.06</u>	\$	<u>.99</u>	\$	<u>.90</u>
Diluted income per common share	<u>\$ 1.04</u>	\$	<u>.96</u>	\$	<u>.87</u>

See accompanying notes to consolidated financial statements.