

The Bank of South Carolina

Dear Stockholders, Customers, Employees, and Friends,

Once again, we begin this letter with a sense of pride about The Bank of South Carolina. As we look back at 2018 - a year of record earnings - it is remarkable how well your company has performed for so many years now. This performance is not just of the financial aspect but also of serving our customers, our shareholders, and our community.

Thirty-two years ago, Hugh C. Lane, Jr. founded this Bank - a bank not to be sold, but rather remain a legacy institution to perform in this way. Like all great companies, every day is our DAY ONE for Service, Responsiveness, and Attention to Detail. Our culture is founded on it.

We were pleased to reward our shareholders in 2018 with a 10% stock dividend in the first quarter and a one-time \$.10 per share cash dividend in conjunction our regular \$.15 per share cash dividend in the third quarter. The stock dividend was the second in three years, and our most recent regular cash dividend was the 117th of our tenure. Since our origin, we have built approximately \$45 million in capital and paid out approximately \$43 million in cash dividends.

2018 held several noteworthy events – namely a return to a more traditional interest rate environment, ground-breaking for our new North Charleston office, a continued 5-Star performance rating by Bauer Financial, and a #1 rating by the Financial Management Consulting Group. As noted, we ended the year with record earnings for the 4th quarter and the 2018 year. Despite a slight decline in deposits, they remain core in nature and are sufficient for liquidity purposes. Sadly, we lost our friends and colleagues - Leon deBrux, a banker for over 50 years, and Ron Coward, an organizer and founding Director of our Bank.

We swim in oceans of risk yet maintain superior levels of asset quality. Through disciplined lending, relationship building, and prudence at every level, extraordinary financial results have been created, thus providing great value to our many stakeholders, namely you.

While our investments are critical, we are reminded constantly that companies don't produce new products or new ideas - people do. Our most important investments are the ones we make in our people, through banking schools, seminars, and continuing education. Our talented and dedicated employees are the key to our ongoing success.

We carry on with an amazing perspective of what long-term means in an industry with ongoing consolidation. Our message is the opposite of reading the cooking instructions for instant grits. We operate, not with exit strategies, but rather continued investment in our future – investment in people, technology, and strategic initiatives. Let's stay the course.

Fleetwood S. Hassell
President & CEO

Douglas H. Sass
Executive Vice President &
Senior Lender

Eugene H. Walpole, IV
Executive Vice President & CFO

Susanne K. Boyd
Executive Vice President & COO

Hugh C. Lane, Jr.
Chairman

SOUNDNESS

PROFITABILITY

GROWTH

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
ASSETS		
Cash and due from banks	\$ 6,325,457	\$ 8,486,025
Interest-bearing deposits at the Federal Reserve	25,506,784	24,034,194
Investment securities available for sale (amortized cost of \$121,918,501 and \$140,606,807 in 2018 and 2017, respectively)	119,668,874	139,250,250
Mortgage loans to be sold	1,199,438	2,093,723
Loans	274,664,267	270,180,640
Less: Allowance for loan losses	(4,214,331)	(3,875,398)
Net loans	270,449,936	266,305,242
Premises, equipment and leasehold improvements, net	2,335,207	2,244,525
Other real estate owned	—	435,479
Accrued interest receivable	1,561,915	1,720,920
Other assets	2,087,587	1,996,140
Total assets	<u>\$ 429,135,198</u>	<u>\$ 446,566,498</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 130,940,138	\$ 139,256,748
Interest-bearing demand	94,207,731	108,967,196
Money market accounts	87,300,433	77,833,728
Time deposits over \$250,000	15,909,991	18,624,924
Other time deposits	18,558,734	23,295,492
Other savings deposits	35,461,361	34,910,212
Total deposits	382,378,388	402,888,300
Accrued interest payable and other liabilities	1,294,249	913,563
Total liabilities	383,672,637	403,801,863
Commitments and contingencies Notes 6 and 11		
Shareholders' equity		
Common stock - no par 12,000,000 shares authorized; Issued 5,777,474 shares at December 31, 2018 and 5,753,743 shares at December 31, 2017. Shares outstanding 5,510,917 and 5,488,207 at December 31, 2018 and December 31, 2017, respectively	—	—
Additional paid in capital	46,857,734	37,236,566
Retained earnings	2,650,296	8,847,164
Treasury stock: 266,557 shares as of December 31, 2018 and 265,536 shares as of December 31, 2017	(2,268,264)	(2,247,415)
Accumulated other comprehensive loss, net of income taxes	(1,777,205)	(1,071,680)
Total shareholders' equity	45,462,561	42,764,635
Total liabilities and shareholders' equity	<u>\$ 429,135,198</u>	<u>\$ 446,566,498</u>

See accompanying notes to consolidated financial statements.

BANK OF SOUTH CAROLINA CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2018	2017	2016
Interest and fee income			
Loans, including fees	\$ 15,126,316	\$ 13,287,318	\$ 12,851,900
Taxable securities	1,872,285	1,585,505	1,297,636
Tax-exempt securities	744,713	1,026,513	1,007,438
Other	393,597	269,811	138,623
Total interest and fee income	<u>18,136,911</u>	<u>16,169,147</u>	<u>15,295,597</u>
Interest expense			
Deposits	694,386	423,863	378,740
Total interest expense	<u>694,386</u>	<u>423,863</u>	<u>378,740</u>
Net interest income	17,442,525	15,745,284	14,916,857
Provision for loan losses	325,000	55,000	570,000
Net interest income after provision for loan losses	<u>17,117,525</u>	<u>15,690,284</u>	<u>14,346,857</u>
Other income			
Service charges and fees	1,168,808	1,135,037	1,061,349
Mortgage banking income	786,893	1,057,457	1,387,740
Gain on sales of securities	4,735	45,820	380,904
Other non-interest income	34,189	30,157	31,090
Total other income	<u>1,994,625</u>	<u>2,268,471</u>	<u>2,861,083</u>
Other expense			
Salaries and employee benefits	6,488,229	6,060,831	6,087,929
Net occupancy expense	1,580,929	1,571,076	1,528,048
Net other real estate owned expenses	57,613	92,652	16,691
Other operating expenses	2,953,463	2,517,737	2,639,776
Total other expense	<u>11,080,234</u>	<u>10,242,296</u>	<u>10,272,444</u>
Income before income tax expense	8,031,916	7,716,459	6,935,496
Income tax expense	1,108,982	2,814,634	1,688,433
Net Income	<u>\$ 6,922,934</u>	<u>\$ 4,901,825</u>	<u>\$ 5,247,063</u>
Weighted average shares outstanding			
Basic	5,500,027	5,471,001	5,428,884
Diluted	5,589,012	5,568,493	5,561,739
Basic income per common share	<u>\$ 1.26</u>	<u>\$ 0.90</u>	<u>\$ 0.97</u>
Diluted income per common share	<u>\$ 1.24</u>	<u>\$ 0.88</u>	<u>\$ 0.94</u>

See accompanying notes to consolidated financial statements.